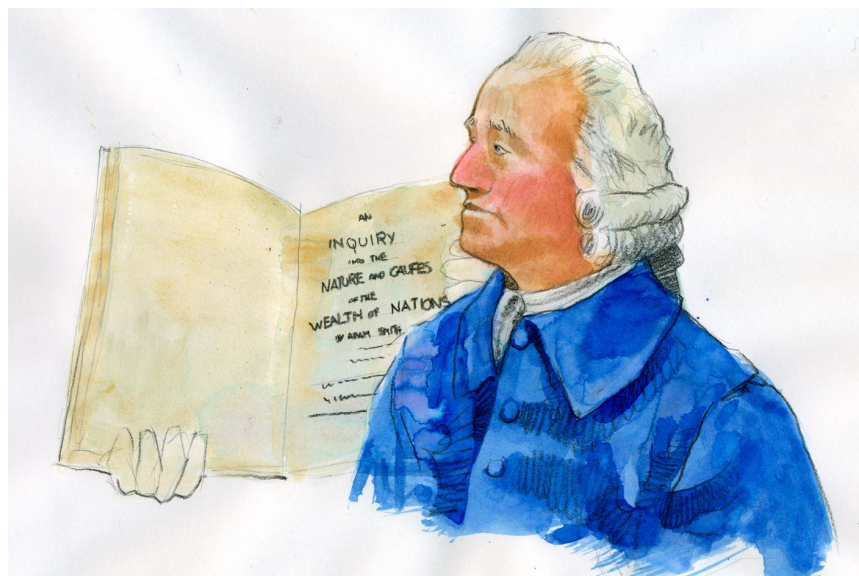


Adam Smith's Solution to Poverty

Even in the 18th century he understood that only economic growth would improve living standards.

By Rainer Zitelmann

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Adam Smith, 1723-80. PHOTO: ALESSANDRO LONATI/BRIDGEMAN IMAGES

Adam Smith's last will and testament left his nephew David Douglas feeling disappointed. He received far less than he had hoped, and the will confirmed what Smith's friends had long suspected: The Scottish economist, who always earned an above-average income, had donated almost his entire fortune to the poor, mostly in secret.

Smith, who was baptized on June 16, 1723 (his birth date is unknown), is best known as a champion of capitalism. Yet he wasn't free of the intellectual's resentment of the rich. In his two main works, "The Theory of Moral Sentiments" (1759) and "An Inquiry Into the Nature and Causes of the Wealth of Nations" (1776), it's hard to find a passage where he speaks positively about the rich and powerful. Merchants and landlords are almost exclusively painted as people who want to assert their selfish interests and create monopolies. You will find clearer praise for capitalists in "The Communist Manifesto"

than in Smith's works.

Many passages exhibit sympathy for the condition of the "poor," by which he didn't only mean those in poverty, but also the "not rich"—the majority of the population, who must exchange their labor for wages to earn a living.

"Sympathy"—today we would call it empathy—was the central pillar of Smith's moral philosophy. And Smith's sympathy was, above all, for the working poor.

A famous passage from "The Wealth of Nations": "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of so much of their own labor as to be themselves tolerably well fed, clothed, and lodged."

Today, these words are sometimes misinterpreted to claim that Smith advocated government-led redistribution of wealth. That wasn't his intention, and he certainly wasn't calling for social revolution. Poverty, according to Smith, wasn't preordained, and above all, he didn't trust government. He points out that only economic growth can raise living standards. Continuous economic growth is the only way to raise wages, and a stagnant economy leads to falling wages. Elsewhere he writes that famines are the result of government price controls.

While Karl Marx claimed nearly a century later that capitalism would lead to growing impoverishment for workers, Smith predicted that economic growth would lead to an increase in living standards.

When "The Wealth of Nations" was published, capitalism was in its infancy. At the time, 90% of the global population lived in extreme poverty. And poverty meant something different back then: It is estimated that about 20% of the inhabitants of England and France weren't able to work at all due to malnutrition. At most they had enough energy for a few hours of slow walking a day, which condemned most of them to a life of begging.

Smith was right about the effects of economic growth, as the past few decades have confirmed. In recent years, the decline in poverty has accelerated at a pace unmatched in any previous period of human history. In 1981 the absolute poverty rate, which the World Bank currently defines as living on less than \$1.90 a day, was 42.7%. By 2000, it had

fallen to 27.8%, and today it is less than 9%.

Smith predicted that only an expansion of markets could lead to increased prosperity. This is precisely what has happened since the fall of socialist planned economies. In China, the introduction of private property and market reforms reduced the share of people living in extreme poverty from 88% in 1981 to less than 1% today. Free-market economist Zhang Weiying of Peking University says, “China’s rapid economic development over the past four decades is a victory of Adam Smith’s concept of the market.” Contrary to prevailing interpretations in the West, Mr. Zhang says economic growth and declining poverty in China weren’t “because of the state, but in spite of the state,” caused by the introduction of private property.

Smith’s plan to lift people out of poverty didn’t involve the abolition of private property or redistribution by the state. Neither did he advocate a libertarian utopia—he believed governments played an important role. Nevertheless, in 1755, two decades before “The Wealth of Nations” appeared, he warned in a lecture: “Man is generally considered by statesmen and projectors as the materials of a sort of political mechanics. Projectors disturb nature in the course of her operations in human affairs; and it requires no more than to let her alone, and give her fair play in the pursuit of her ends, that she may establish her own designs. . . . All governments which thwart this natural course, which force things into another channel, or which endeavour to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.” Prophetic words.

Smith showed the world how to overcome poverty. He didn’t leave much to his nephew, but his great legacy is showing the world that only economic growth can lift people out of poverty, and that the most important condition for that is economic freedom.

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