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Question: Does Adam Smith's emphasis on economic liberty ultimately reinforce or challenge social inequality in commercial society?

Social Inequality and Economic Freedom in Adam Smith's *The Wealth of Nations*

Smith begins *The Wealth of Nations* by celebrating the productivity gains of the division of labour. In the famous example of the pin factory, specialization vastly increases output. The broader significance, Smith argues, is that this productivity fuels widespread prosperity: "the great multiplication of the productions of all the different arts" in a well-governed society causes "universal opulence which extends itself to the lowest ranks of the people". (1.i, 15) Even the poorest workers enjoy more goods and conveniences than they would in a less developed economy. Economic liberty, allowing individuals to specialize and trade freely, thus challenged social inequality by benefiting even "the lowest ranks," and by raising the living standards of the poor (p. 15). In thriving and expanding economies like colonial North America, rapid capital accumulation and labor scarcity push wages up, so that "the demand for labourers, the funds destined for their maintenance, increases"(1.viii, 79), benefiting ordinary workers far more than in stagnant societies such as Qing China, where overpopulation depresses wages to "the lowest rate which is consistent with common humanity" (80). In a "progressive state" of society, the "condition of the labouring poor… is happiest and most comfortable," whereas in a stagnant or declining state it is miserable (99).

On the one hand, Smith consistently argues that free competition can raise wages, spread innovation, and break the monopolies of the powerful. Commerce historically emancipated townsfolk and peasants, and Smith insists that no group should have legal privileges over others. The rise of commerce undermines feudalism as nobles, eager for luxury goods, such as "trinkets and baubles" (V2, CH. iv, 439), sold land and granted independence to tenants, fostering "a numerous body of small proprietors," whom Smith praises as "the most industrious, the most intelligent, and the most successful." (441) The moral undercurrent of Smith's thought is a vision of mutual interdependence: in a commercial society, each person's welfare is tied to the welfare of others through exchange. Smith challenges the zero-sum mentality of his era's aristocrats with an implicit argument that inequality is not necessary for wealth; in fact, a growing "universal opulence" is both possible and desirable.

On the other hand, Smith does not present free markets as a utopia of equality. He is too much a realist to ignore the persistent inequalities that liberty allows. While he praises rising real wages, he also describes how employers conspire to prevent wages from rising. In a free labor market, wages are determined by a contract between these two parties, but Smith pointedly observes that this contract is made between unequal partners. "The workmen desire to get as much, the masters to give as little as possible" in wages, and because the masters generally have greater means and fewer in number, they hold the advantage (1.viii, 75). Smith notes that employers can collude to keep wages down, whereas any combination among workers is swiftly punished as illegal. "The masters, being fewer in number, can combine much more easily … The law, besides, authorises, or at least does not prohibit, their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work, but many against combining to raise it"(74). This remarkably candid passage exposes a built-in inequality of power under conditions of "natural liberty." Masters have the economic liberty to tacitly cooperate and withstand strikes, but workers who exercise their liberty to unite for better pay are met with "the rigorous execution" of anti-labour laws. Smith describes this situation not to endorse it, but to underline the structural inequity faced by workers in a market economy. His tone even carries a critical edge: "Masters are always and everywhere in a sort of tacit, but constant and uniform combination not to raise the wages of labour above their actual rate" (75). It is striking that the apostle of free markets here acknowledges an implicit collusion among the capitalist class that keeps labour's share low. It is noted that there is a "subsistence level" to wages. In years of abundant employment, wages may rise and workers gain some bargaining power; in lean times, competition for jobs drives wages down and makes workers "humble and dependent," a fact that "pleases" masters greatly (93-94). Economic liberty permits the labour market's pendulum to swing, but when it swings toward surplus labor, inequality between the comfortable and the desperate widens.

Smith's critique of the mercantile system amplifies this point. He asserts that mercantilist regulations artificially inflate prices and profits for merchants and manufacturers, allowing them to "raise the rate of their profit above what it naturally would be," which "is an absurd tax upon the rest of their fellow-citizens" (1.xi, 278). These policies benefit a narrow elite at the expense of the public, creating what Smith calls "the oppression of the poor [to] establish the monopoly of the rich" (ix, 107). He warns that any law proposed by merchants "ought always to be listened to with great precaution… It comes from an order of men… who have generally an interest to deceive and even oppress the public," and he laments how mercantile interests have become "formidable to the government" itself, shaping policy to their advantage (xi, 277-278). In Smith's vision, the three great classes, which are labourers, capitalists, and landlords, each seek to increase their share of income. Liberty gives each the chance to do so, but their powers are unequal. Landowners possess a monopoly of a resource, and capitalists have the advantages of wealth and coordination, whereas ordinary workers have only their labor and numbers. Smith does not explicitly call for altering this hierarchy, yet he pointedly observes its existence and injustices.

Smith's legacy, then, is a complex message: Economic liberty is the prerequisite for a more just and opulent society, but it is not a guarantee of social equality. In Smith's commercial society, inequalities would remain, but the hope was that overall progress would continually expand the circle of prosperity and capability. The question I began with can thus be answered in a qualified way. Smith's emphasis on liberty challenges social inequality when liberty is understood as the rights of all individuals to trade, work, and improve their condition free from oppression, by dismantling feudal bonds, widening the sphere of voluntary exchange, and promising that the fruits of increased productivity will reach the poor in the form of cheaper goods and higher wages in growing economies. Yet liberty reinforces inequality to the extent that it empowers those with property and capital to accumulate more and to influence the rules of the game. Smith saw both sides of this coin, and he does not offer a neat resolution. His genius was to argue that in the long run, the coin toss of liberty would land on the side of improvement far more often than on the side of regression. But he never assumed the outcome was automatic or perfectly fair. Even as he preached free market, Smith retained a moral concern for the poor and a willingness to expose the injustices that coexisted with the wealth of nations. In our class discussions, we noted that *The Wealth of Nations* was published in 1776, the same year American colonists, invoking liberty and equality, began to sever the mercantilist chains that Smith criticized. The ideals of freedom were in the air, yet the reality, as Hogarth's *A Midnight Conversation* scene reminds us, included decadence and vice among the wealthy, and as Kollwitz's *Riot* reminds us, could include desperation and revolt among the poor.