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If alive today, Adam Smith, the father of modern economics, might favor policies creating a more inclusive economy for both ethical and practical reasons

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In a recent op-ed, I suggested that Congress establish a universal retirement savings system, possibly funded by a tiny tax on financial market transactions. In another, that growing income and wealth inequality has shrunk Social Security's revenue and that taxing capital gains and high earnings could help the program stay solvent without cutting benefits. What would Adam Smith, the father of modern economic analysis, think of taxing financial transactions and capital gains? The notion of including all workers in saving and ownership of working capital? Helping correct the tendency of modern capitalism to concentrate wealth? Although conservative economists often cite Smith as a siren of an unfettered market, he might give these proposals serious consideration. Times have changed. Yet his manner of reasoning remains vital in addressing issues we face today.

Unlike hundreds of thousands of economists today, Smith did not receive professional training anchored in a behavioral model which assumes that, absent a "market failure," consumers and producers act like utilitarian robots solely out of self-interest. Smith was a moral philosopher, political analyst, and social scientist who drew examples of human behavior and government policy liberally from history. He was exploring how humans behave and what courses of action were right or wrong on both utilitarian and ethical grounds.

Smith might be very comfortable with recent inquiry into wealth and income inequality, particularly the theory that the political power of the those with wealth creates a structural advantage in capitalism that needs balancing government policies to maintain a fair and thriving economy. Many of the economists probing the advance and causes of current inequality also are broad thinkers who also draw from a variety of disciplines beyond the balkanized field of economics: Thomas Piketty, Joseph Stiglitz, and Branko Milanovic just to name a few. In "*Capital in the 21st Century*," Piketty's "petits rentiers" (small-time rent and profit collectors) riding atop the current version of capitalism echo the rentier capitalists of the Enlightenment period and French Revolution. Rentiers[i] extract profits not through labor, but rather through ownership of property including land, shares of corporations, and public debt. In countries with advanced economies about half the population has no assets. Piketty contends the capital gains of the elite tend to grow faster than the economy as a whole. Those at the top have the political leverage to increase their advantage. Unless moderated by public policy, this structural tendency can lead to a smaller middle class, less demand to fuel economic growth, and political instability. In the past, the leverage of working people in very unequal societies most often rebounded only in the wake of disasters that constricted the labor supply such as plagues, war, and revolutions.

Smith described "rent" (the base of the word "rentier) as a form monopoly power – a surcharge resulting from an exercise of power rather than buyers and sellers interacting on equal footing.[ii] All told, Smith estimated that this concept of rent constituted about a third of commodity prices…So much for the notion that he thought unchecked greed always increases welfare and the social good.

In the "*Inquiry into the Nature and Causes of the Wealth of Nations*," first published in 1776, Smith advanced the famous metaphor of the "invisible hand" in the context of arguing against British trade policy, which he said restrained productivity through tariffs and subsidies favoring domestic producers of grain and other goods.[iii] (Yes, Mr. Trump, he opposed tariffs and other trade barriers with narrow exceptions.) Smith then generalized: "By pursuing his own interest (a person) frequently promotes that of the society more effectually than when he really intends to promote it." In this way, "frequently" (not "always" or "in most cases") the Crown or Parliament would have a better chance of achieving a given policy goal if they simply let nature take its course.

In this huge volume, the phrase "invisible hand" rarely surfaces. In contrast, Smith habitually wrestles principles of economic fairness and equity in discussing a wide range of issues. Near the conclusion, when laying out principles of taxation, he mentions "equality" and "inequality" more times on a single page than the invisible hand in the entire volume. His first principle of taxation is: "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state." [iv] He likened a nation to a large estate in which all should contribute to its upkeep in proportion to how much each benefits from the government's protection. Reasoning one step further, if paying taxes proportionally, why not distribute some of the market's yields in the same way? Wouldn't recycling a small bit of capital gains from the top to all who work make wage earners feel more invested in the country and provide an incentive to work harder? (Unlike Marxism, the idea here is for individuals, not the government, to retain ownership after redistribution sized for the purposes of equity and economic growth.)

While probably pleased that globalization of trade has helped lift billions out of poverty in developing nations, Smith might also have observed that it has bled manufacturing jobs and the middle class in developed economies where the convergence of political power with wealth may be widening gaps between economic classes and closing down opportunities to move up the social ladder. He was aware of the market's tilt to one group's advantage: "It cannot be difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers, who interest has been so carefully attended to…" [v]

Smith was writing just before the American Revolution. Manufacturing and trade were ascendant, but most of Britain's capital was tied up in agriculture and land. English commerce and its evolving democracy functioned under a monarch and gentry with considerable power. Society was still bound by strong feudal roots that constrained the transfer of wealth at death (through primogeniture and entail) and the movement of labor. Slavery, indentured servitude, and bondage within the family structure were norms. Millions of humans and their offspring were property on someone else's balance sheet.

Smith warned that excessive public debt (sorry Congress) and taxation would sap the productive capacity of the two greatest sources of revenue: land and business capital.[vi] The main types of British taxes were those on land, stamp duties on products, imported goods, and sales.[vii] Extending taxes to the colonies (the notorious stamp tax on paper, for example) would generate a lot more revenue, and might be justified to cover the cost of their defense, he wrote, but consistency with the British constitution would require taxed regions to have representation in Parliament. He then commented that politics and entrenched views would prevent such representation.

What about paying [a living wage]? Smith's writings could be interpreted to support a state-mandated minimum wage as well as voluntary actions such as Amazon's recent announcement that it will pay workers at least $15 an hour (more than twice today's federal minimum wage). He asked: "Is … improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers and workmen of different kinds make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. 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, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged." [viii] Here, what is right to do takes precedence over what one has the power to do.

As the most powerful mercantile nation today, the United States has inherited many of the social and economic challenges Britain faced a couple centuries ago. Now, as then, government policy to moderate the natural tendency of wealth to concentrate may be desirable – perhaps more so, since sources of wealth have shifted in ways that [escape taxation]. Much more than in the past, Americans derive wealth from control of, and access to, the world's trade, monetary, and financial systems, not just domestic manufacturing and land where taxation has long tenure. As in the past, policy changes cannot occur without the participation of the elite receiving the lion's share of profit and rent. Not just the much-maligned 1% at the top, but also the "rentier" layer just beneath of educated professionals, public servants, and business people holding reins of power in both of our political parties.

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[i] See: "The Age of Rentier Capitalism: How intellectual property makes us more unequal," Guy Standing, Al Jazeera America, Sept. 7, 2014.

[ii] Smith wrote: "As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the labourer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them. He must then pay for the licence to gather them, and must give up to the landlord a portion of what his labour either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities, makes a third." Excerpt from "The Wealth of Nations," Adam Smith, Bantam Classic Edition, March 2003. "Component Parts of Price," p. 70. The book was originally published in 1776.

[iii] "The Wealth of Nations," "Restraints on Particular Imports," p. 572.

[iv] "The Wealth of Nations," "Of Taxes," p. 1043.

[v] "The Wealth of Nations," "The Mercantile System," p. 841.

[vi] "The Wealth of Nations," "Public Debts," p. 1181.

[vii] "The Wealth of Nations," "Public Debts," p. 1190.

[viii] "The Wealth of Nations," "Wages of Labour," pp. 110-111.