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Adam Smith and the Roots of Populism

Roberto Censolo* Massimo Morelli†

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Abstract

Industry, frugality and prudence can foster growth, and, in turn, growth can sustain individual beliefs that these virtues are the right recipe for the pursuing of happiness. This virtuous circle is an often emphasized contribution of Adam Smith. Equally important but neglected, is the Adam Smith's fear that the opposite vicious cycle can materialize, especially at stages of development of commercial society characterized by stagnation, alienating working conditions and growing inequality: stagnation of wages, and the frustration coming from the perceived impossibility of trickle down effects from the growing wealth of the few, can degenerate moral sentiments, in ways that we can now associate to many of the current features of populism.

Keywords: Adam Smith, Moral Sentiments, Secular Stagnation, Inequality.

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1 Introduction

The shocking escalation of inequality is widely recognized as a key challenge for liberal democracies. Already in the 80s many voices expressed concern for the early signs of decline of the traditional american middle class – see e.g. Pressman (2007). In the following decades the dismal growth or even stagnation of median and low incomes, combined with the expansions of top incomes, further increased the awareness of a middle class weakening (Erickson 2014; Pew Research Center 2015; Fan and Zan 2020; Wolff 2021).¹ Technological change and globalization impacted deeply on internal labor markets.² A shrinking middle class coupled with growing inequality is not strictly a US phenomenon, but an ongoing structural change that affects almost all developed countries (Vaughan-Whitehead 2016; Alvaredo et al. 2018a; Alvaredo et al. 2018b; Derndorfer and Kranzinger 2019).³

Free market democracies are ideally designed to promote the interests of a large and prospering middle class, with significant social mobility. A flourishing and self-confident middle class not only sustains a successful economy but is crucial for good governance, political and institutional stability, and social cohesion. The transformations in the labor market, the decline in middle-skill employment and the ensuing distortionary distribution of income, which threaten the identity and the integrity of the middle class in western countries, raise concerns as to the impact they may have on democratic stability (Kurlantzick 2013; Vormann and Weinman 2020; Lammert and Vormann 2020). As stated in the *Report of the Commission of Inclusive Prosperity*⁴, while "inclusive prosperity nurtures tolerance, harmony, social generosity, optimism, and international cooperation, which are essential for democracy itself", when market systems fail to raise living conditions and to provide real opportunities of social and economic upgrade to a large share of citizens "the result is political alienation, a loss of social trust, and increasing conflict across the lines of race, class, and ethnicity".

This paper offers a rationale for this change in social moods and common understandings induced by growing inequality, income stagnation and loss of social identity by relying on Adam Smith's analytical framework. Following Smith's arguments we argue that extreme inequality and stagnation of wages can determine not only socio-economic decline of the middle class, but also a *moral decline* of the middle class, which could in turn help interpret some of the political changes observed in liberal democracies in recent decades. The idea that

¹"Contrary to the rising-tide hypothesis, the rising tide has only lifted the large yachts, and many of the smaller boats have been left dashed on the rocks" colourfully affirms Nobel laureate Joseph Stiglitz (Stiglitz 2016).

²Khondker (2017) and Ravallion (2018) offer an extensive literature review on globalization and inequality. Specifically concerned with the impact of globalization on the middle class see Birdsall et al. (2000) and Pleninger et al. (2019). The effects of labour market polarization on the social structure are taken into consideration by Goos et al. (2010), Boehm (2014), Salvatori and Manfredi (2019).

³The documentation of these trends issued by international organizations is impressive. See OECD(2018; 2019) and ILO (2016; 2018).

⁴"Report of the Commission on Inclusive Prosperity" (2015), Co-Chaired by Lawrence H. Summers and Ed Balls.

inequality, persistently anaemic growth and the economic decline of the middle class combines with a change of social identity to create fertile ground for populism, nationalism and sovereignism is now a widespread belief among scholars in different fields of social sciences – see e.g. Norris and Inglehart (2019), Nouri and Roland (2020) and references therein.⁵ What is missing is a comprehensive understanding of the vicious interplay among production process dynamics, labor market changes, social structure and common feelings and understandings of people. We believe that much can be learned (also for the causes of populism) by trying to understand how economic and social dynamics can endogenously mould the *moral* sphere of the individual, thus determining the essential conditions for changes in social identification. Surprisingly, the vision of capitalism by Adam Smith, combined with his view of human nature gives us what we need for this purpose.

The key element of Smith’s analysis that emerges from a joint interpretation of his major works, "The Theory of Moral Sentiments" and "The Wealth of Nations" (TMS and WN henceforth), is that the representative individual of society is not an exogenous *homo economicus* but the endogenous outcome of the interplay between human nature and social environment. Therefore, Smith’s methodological setup allows to examine social change through the interplay between micro and macro level transformations. At the individual level, the problem faced by orthodox economic reasoning is that the *homo economicus* at the core of economic modeling is equipped to deal with uncertainty within the framework of Von Neumann-Morgenstern assumptions, but he is totally unfit to cope with insecurity, anxiety, uneasiness, and resentment. In contrast to Adam Smith vision of human nature, the *homo economicus* hypothesis neglects the "system of human passions," the complex mechanics which produces moral value judgments. Therefore, not only this assumption disregards how morality affects the way information is processed in order to produce conscious decisions, but it ignores also that moral value judgments are a key element of social interactions. Behavioral political economy and behavioral political science, as well as social psychology, address part of such a void left by neoclassical economic thinking, but the general tendency of these strands of literature is to focus on understanding observed behaviour rather than on modeling the interplay between reason and morality.

At the macro level, the need to extend the economic discourse beyond the boundaries of quantitative phenomena and rationality is supplied by Friedman (2005), who departs from traditional economic analysis by assuming that individuals’ behavior responds not just to economic incentives but to moral values and social presumptions, which are themselves affected by macroeconomic performance and individual wellbeing. Interestingly, even though most economists studying populism cite Rodrik (2018) for his strict economic reasoning, the same

⁵For the importance of changes in social identification patterns in recent years, see e.g. Gennaioli and Tabellini (2020), Shayo (2019), and the comprehensive survey of the populism literature in Guriev and Papaioannou (2021). For clear evidence about the key role of the economic insecurity of the middle class for the explanation of the populist wave in Europe see Guiso et al. (2021).

article contains thirty-five references to specific human emotions and moral categories. The article reviews the causes of inequality, the redistributive effects due to trade liberalization complemented with financial globalization, automation and new digital technologies, as well as the inadequacy of redistributive policies and the decline in the political influence of organized labor. But in his conclusions Rodrik recognizes that populism contains a "narrative" of radical change in common moods and standards of morality. Specifically, he argues that inequality impacts on social and political equilibria by means of a moral value judgment, and only to the extent that inequality is perceived as "unfair" or "unjust" it may arouse those sentiments of anxiety, anger and insecurity that determine moral distress and social unease.

This article aims to revive Adam Smith vision of capitalism in a contemporary perspective, showing that the shift from his cheerful view of commercial society to the gloomy prospect of the envisaged alienation due to advanced division of labor breaks down the myth of a general middle-class society and interprets the social unease and political strain affecting contemporary democracies. In particular, the idea that the political impact of inequality ultimately depends on what is commonly perceived as "just" or "unjust" can be derived from Adam Smith arguments on human nature, which can also shed light on the endogenous transformation of collective moods and social morality in response to changes in the economic environment. We will show, through the lens of Adam Smith analysis, that the evolution of the commercial society towards a mature stage of development may trigger at the micro level a vicious interplay between economic decline and moral decay of individuals, such that the prudent or liberal conservative citizen that grounds the stability of a prosperous society is replaced by the appearance of a novel ignorant social prototype, which displays the key traits of modern populism.

We find it useful to anticipate briefly the key arguments derived from Smith's conceptual and analytical framework. The engine of a "progressive state" of economy lies in the fertile interplay between division of labour and capital accumulation. Within a "system of perfect liberty" these two dimensions of growth are sustained by the social virtues of "industry" and "parsimony". This prudent moral character of a flourishing society crucially depends on the distribution of income. The trickle down of wealth gradually improve well-being of individuals, reinforcing the awareness of a causal link between virtue and economic outcome. This virtuous circle is sustained by a smooth inequality, by means of which most of the people may enjoy the esteem and respect of lower ranks being at the same time prompted to better their condition by the admiration of higher social strata. Economic efficiency and social cohesion rest upon the material and moral wellbeing of the middle class, whose representative individual is distinctly outlined by Smith as the man who in the "rigour of his parsimony" and in the "severity of his application . . . by continual, though small accumulations, is growing better and better every day" (TMS VI. i. 12. 215) . Actually, the true recompense for parsimony and application goes beyond economic reward. It embraces the moral sphere. In the same paragraph Smith says that "he feels with double satisfaction this gradual increase of ease and enjoyment, from

having felt before the hardship (of work and application). He has no anxiety to change so comfortable a situation which might endanger the secure tranquility which he actually enjoys". The virtuous circle between material welfare and morality ends with a political nuance. The social prototype of a prudent or liberal-conservative citizen emerges, a good citizen faithful to the grounding principles of the social contract and ready to consent to the reformist policy of gradual changes.

Smith recognizes that a path of perpetually increasing wealth is both morally and economically unsustainable. In contrast to the fragile equilibrium between morality and wealth supported by the surplus distribution of a growing economy, in the final part of WN, Smith traces the moral decay of society once the mature stage of development combines stagnant growth and the alienating effects of advanced division of labor. Essentially, low growth paired with technological advance depresses wages and warps the skewness of income and wealth distribution to the right, such that the increased inequality squeezes the middling ranks towards low income levels. The virtuous circle between a thriving economy and morality rests on the endogenous appearance of prudence, of which industry and parsimony are tangible expressions. However, human nature is not built to necessarily produce it. The impact of inequality, stagnation, alienating work and the resulting decline of the middle class actually reveals the fragility of this social virtue. Economic stagnation together with growing inequality bring middle incomes closer and closer to the subsistence level, deteriorating the confidence of the average individual in the possibility to improve her conditions by continuing in her frugal and industrious path. Conversely, the perception that the exertion of liberal virtues becomes unable to promote social and economic mobility reduces incentives and negatively affects the prospects of growth. Moral decay is further exacerbated by increasing knowledge inequality, as the division of labor itself determines specialization of several branches of knowledge dominated by the class of "philosophers." The final outcome is the demise of the "good citizen" and the appearance of a novel ignorant social prototype. This ignorance does not reflect a cognitive deficiency but a moral degradation. On the one hand, the collapse of prudence resulting from the annihilation of self-command renders this individual incapable to understanding how his interest is strictly connected with that of society "even when fully informed". On the other hand, the corruption of the impartial spectator exposes him to unsocial passions.⁶ The yearning for social status takes simultaneously two forms: Resentment towards the higher strata of the social ladder considered as illegitimate strongholds of privilege⁷, and hatred towards the lowest ranks of people as a mean to escape a social condition dangerously close to the bottom of society. A key element of Adam Smith theory of human nature is that rationality cannot supervise the complex dynamics inside the sphere of sentiments.

⁶While the impartial spectator refers to the human conscience which governs the realm of sentiments, the self-command resides in the sphere of rationality and represents the principle by which individuals can commit themselves to a certain course of action.

⁷Related to the anti-elite sentiments emphasized in the populism literature – see e.g., Mudde (2004).

As a result, reason deceptively tends to impute to external causes the origin of moral and psychological conditions. Individuals do not recognize that the final cause of their moral distress lies in the dissolution of prudence as a consequence of the corruption of self-command and impartial spectator but reasoning backwards they recognize in the liberal principles of the social contract the origin of the oppressive inequality which degraded their social status. Eventually, this deceptive logic leads to a rational justification of social resentment and hatred. The principles of human nature grounding Adam Smith analysis of a flourishing commercial society are the same ones that govern his dark vision of capitalism. Finally, even though morally corrupted, individuals remain "social animals". The sympathetic mechanisms which, according to Smith, ground human sociability, tend to aggregate these unsocial moods into a common feeling and understanding, which, as argued by Rodrik (2018), only needs the "narration" of a demiurge to become a "political mass."

The paper is organized as follows: Section 2 describes the virtuous circle of progressive societies, while section 3 zooms on the key connections between economic decline and moral decay, explaining the mechanism that could even reduce "moral universalism" (Enke et al. 2020) and increase hate against the new poor. Section 4 elucidates the additional important role of knowledge inequality and highlights the consistent and complementary aversion against the elites. Given that hate against the new poor (a threat) and hate against the elites are both connected to the extreme consequences of the division of labor, this makes Adam Smith an important source of understanding of the moral decline of the middle class that we observe in connection with the populism wave. Thus, section 5 concludes by discussing how the aggregation of moods described by Smith in the oppressive inequality conditions induced by division of labor can be considered a primary cause of populism demand.

2 The Moral Foundations of a Flourishing Society

The microfoundation of the adhesion to the social contract upon which the commercial society is based, is admirably represented in the following quotation

The man who lives within his income, is naturally contented with his situation, which, by continual, though small accumulations, is growing better and better every day. He is enabled gradually to relax, both in the rigour of his parsimony and in the severity of his application; and he feels with double satisfaction this gradual increase of ease and enjoyment, from having felt before the hardship which attended the want of them. He has no anxiety to change so comfortable a situation, and does not go in quest of new enterprises and adventures, which might endanger, but could not well increase, the secure tranquillity which he actually enjoys. (TMS VI. i. 12. 215)

The above quotation highlights the virtuous interplay between liberal virtues and dynamics of the economic system. Industry and parsimony sustain labour and saving, fostering division of labour and capital accumulation. Clearly, in the background Smith envisages a “progressive state” of the economy, since only economic growth allows, through redistribution and/or social mobility prospects, a gradual bettering of the representative individual. This trickle down of wealth reinforces the belief that the exercise of liberal virtues effectively promotes social and economic advance. The psychological outcome of this process is a condition of human balance where the mediation of the complex and seemingly contradicting system of human passions allows the individual to enjoy a condition of “secure tranquility”⁸. It is no coincidence that the quotation appears in Section I of Part VI “Of the Character of the Individual, so far as it affects his own Happiness; or of Prudence”. It is prudence, in fact, the virtue that characterizes the moral trait of the representative individual in a flourishing commercial society and supports the “rigour of his parsimony” and “the severity of his application”⁹ (TMS VI. i. 11. 215).

However, the liberal virtues that appear to legitimate the commercial society cannot be regarded as examples of moral excellence. Indeed, they originate from an imaginative and sympathetic process that deceptively leads individuals to think that wealth will secure happiness (TMS VI. i. 9-10. 183). In this famous passage Smith stresses that only in “times of ease and prosperity” does wealth arouse a positive feeling of admiration that unknowingly modulates the reaction of reason. Rationality is instrumental to action and does not have access to those mechanisms that produce moral value judgements. It follows that reason recognises the cause of what imagination has elaborated as the happiness promised by wealth in “the machine by means of which it is produced”. If individuals were able to evaluate the belief that wealthy people “possess more means of happiness” they would be forced to admit that wealth “appears in the highest degree contemptible and trifling”. Smith concludes “But we rarely view it in this abstract and philosophical light . . . And it is well that nature imposes upon us in this manner. It is this deception which rouses and keeps in continual motion the industry of mankind.” This is the essential point that marks the shift from the strongly negative moral judgment concerning wealth to the awareness that those human passions seemingly distant from an abstract ideal of virtue are the inputs for the generation of “minor virtues” which sustain the creation of wealth and the overall social cohesion of the commercial society.

It is important to emphasize that the self-reinforcing character of these virtues does not simply rely on the trickle-down of material wellbeing. The distribution of economic surplus should create the conditions for a moral reward in terms of “ease and enjoyment”, keeping at the same time the moral incentive to exercise those liberal virtues. Both these conditions are satisfied

⁸ “The theme of WN was that a good moral climate would encourage good economic performance, and conversely that good economic performance could improve the moral climate” (Fitzgibbons 97, p. 153)

⁹ Hanley (2009, p. 120) quoting the above passage says “it is surely correct to say that Smith’s prudent man is an embodiment of the ideal commercial man envisioned in WN”.

through a distributive mechanism that preserves a certain degree of social and economic inequality. This surprising mechanism rests on a specific configuration of human nature, the natural desire “to be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation” (TMS I. iii. 2. 1 p. 50) coupled with the natural tendency of individuals to sympathize more with fortune and prosperity than with misfortune and poverty.¹⁰

It is because mankind are disposed to sympathize more entirely with our joy than with our sorrow, that we make parade of our riches, and conceal our poverty. . . . Nay, it is chiefly from this regard to the sentiments of mankind, that we pursue riches and avoid poverty. . . . From whence, then, arises that emulation which runs through all the different ranks of men, and what are the advantages which we propose by that great purpose of human life which we call bettering our condition? To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation, are all the advantages which we can propose to derive from it (TMS. I. iii. 2. 1. 50)

Thus, the “gradual increase of ease and enjoyment” reflects not so much the supplying of more “necessities and conveniences of the body”, but the social credit which is due to those who succeed in upgrading their status (TMS VI.i.3. 213). At the same time, this moral asymmetry reacts to social and economic disparity and sets in motion those sentiments of admiration and fascination towards wealth that fuel the liberal virtues of industry, ingenuity, and frugality. Thus, the “deception that rouses and keeps in continual motion the industry of mankind”, described in TMS, is fully clarified within a circular process connecting growth, distribution of wealth and moral response of individuals.

It must be stressed that the virtuous circle between wealth and morality is conceived by Smith only in a progressive state of the economy, since only “in times of ease and prosperity” imagination is “charmed with the beauty of that accommodation which reigns in the palaces and oeconomy of the great” (TMS VI. i. 9-10. 183). However, Smith is aware that fascination and admiration, which morally legitimate the right of others to enjoy their wealth, may easily degenerate into an unsocial passion:

We are generally most disposed to sympathize with small joys and great sorrows. . . . The man who, by some sudden revolution of fortune, is lifted up all at once into a condition of life, greatly above what he had formerly lived in, may be assured that the congratulations of his best friends are not all of them perfectly sincere. An upstart, though of the greatest merit, is generally disagreeable, and a sentiment of envy commonly prevents us from heartily sympathizing with his joy. (TMS I.ii. 5. 2. 40-41)

¹⁰See also TMS VI.iii. 14. 243.

This passage clarifies the meaning of “gradual bettering” which follows the exercise of liberal virtues. Only “by continual, though small accumulations,” the individual can obtain the social consideration from which derives her moral reward in terms of “ease and enjoyment”, not by a “sudden revolution of fortune”. Accordingly, the picture of the prudent liberal-conservative citizen outlined in the first quotation of this section appears the microfoundation of a society solidly built on a broad and flourishing middle class. As pointed out by Young (1985, 1986), the market mechanisms guided by the principles of the impartial spectator and self-command manage to converge towards a “golden compromise” that embodies the social virtue of prudence in the natural rate of wage and profit. In a growing economy the outcome of this “golden compromise” is a trickle-down of wealth and a gradual bettering of material conditions of individuals which preserves a kind of inequality “where the distribution of fortunes descends steadily and evenly from the very rich to the very poor” (Rasmussen; 2016, p. 344). At this point inequality emerges in an apparently paradoxical way as a vehicle of social cohesion.¹¹ In the context of a social contract whose laws protect the freedom and initiative of individuals, the concrete hope of improving “relative” social status and the “relative” economic position by means of labour, industry and frugality are not only a source of legitimation of inequality but also the fundamental mechanism of consensus and social stability.

3 Economic Decline and Moral Decay

An important aspect of the previous discussion is that the set of liberal virtues at the base of the progressive state of the economy represents as many specializations of the virtue of prudence (West 1969, 12) but human nature is not built to necessarily produce it. Most importantly, given that the system of passions is triggered by external circumstances and rationality has no control on it, prudence in reality appears a weak virtue, able to self-sustain only for the social and material effects it produces. Smith is aware that the dynamics of commercial society cannot consist of “mechanical” laws that force the system of liberty on a path of never-ending economic growth. Therefore, there is no guarantee that collective prudence emerging under specific circumstances is to be perpetuated in the longer term. It is extraordinary how from this perspective Smith’s vision acquires not only the specific connotation of the eighteen-century pessimistic view of human nature, but also a peculiar scepticism about the historical fate of commercial society. Hill (2006) points out that Smith held a common view that the world was eventually destined towards fall. In this cultural climate the dissipation of virtue became a pressing problem of political philosophy. Adam Smith is no exception. His gloomy vision of the future of capitalism has been analysed with reference to three issues explicitly mentioned in WN: the progressive weakening of the chances of growth and the subsequent projection towards a stationary state; the degeneration of distributing mechanisms and the emergence

¹¹Several scholars have emphasized this peculiar role of inequality in Smith’s analysis. See, for example Rasmussen (2016, 2008 ch. 2), Fleischacker (2004) and Hanley (2009, p. 23).

of “oppressive inequality;” and, finally, the alienation of the labouring class as a consequence of the evolution of the division of labour. In WN Smith does not explain the ultimate consequences of these phenomena for the institutional set-up of commercial society. However, it is clear that, given the bond between institutional setting and economic arrangement that characterizes Smith’s historical view of human society, economic decline and moral decay are a threat to the integrity of the system of perfect liberty. In the analysis that follows we highlight how a contemporary interpretation of Smith’s pessimism may envisage the degeneration of the commercial society in the direction of a collapse of "moral universalism".

3.1 The Shadow of Stagnation and the Rise of Inequality

Even though Smith disregards a fully articulated exposition of the mechanics underlying the stationary state, frequent references in WN suggest that Smith considered it possible that the commercial society could reach “that full complement of riches which the nature of its laws and institutions permits it to acquire” (WN I. viii. 24. 89). Unlike other classic authors (for example Mill and later on Ricardo) the vision of a stationary state as opposed to the “cheerful and hearty state” of a growing economy takes on a strong negative connotation

It deserves to be remarked, perhaps, that it is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is, in reality, the cheerful and the hearty state to all the different orders of the society; the stationary is dull; the declining melancholy. (WN I. viii. 40. 99)

The stationary state is distinguished by two adjectives, “dull” and “hard”. If “dull” may be associated with the fact that the lack of growth prospects hinders the exercise of liberal virtues, “hard” underlines that “the condition of the labouring poor, of the great body of the people” is destined to get worse. This suggests that, the approach to the stationary state goes together with a structural change in the income distribution, which increases the level of economic inequality. Smith underlines this process of concentration of wealth by pointing out that “In a country which had acquired its full complement of riches, . . . , as the ordinary rate of clear profit would be very small, so the usual market rate of interest which could be afforded out of it would be so low as to render it impossible *for any but the very wealthiest people* to live upon the interest of their money (WN I. ix. 20. 113; emphasis added). Having acquired “the full complement of the riches” suggests that a society has reached its full potential of wealth. However, if economic surplus is not increasing, market forces will bring wages down to the subsistence level, thereby impoverishing the mass of

labourers, and will lower the interest rate penalising the incomes of “all people of small or middling fortune”. Therefore, the approach to the stationary state combines with a dramatic change in the shape of income and wealth distribution, where middle classes are flattened on low-income levels and riches are concentrated in the hands of the few (Heilbroner 1973).

3.2 The Moral Consequences of Increasing Inequality

In a “civilized society” the “industry of mankind” is prompted through a socially desirable deception by the admiration for those on the higher ranks of the social ladder. This implies not only that a certain degree of inequality is necessary to promote growth, but also that the status of poverty and wealth is not perceived in absolute but *in relative* terms (Rasmussen 2016; Boucoyannis 2013). As a consequence, people’s desire to improve their social and economic status in relative terms implies that changes in the shape of income inequality may have crucial consequences.

Commercial society does not rule out concentration of wealth as, realistically, cannot rule out poverty but, unlike previous social orders, is able to generate a median income segment which comprises most part of the individuals.¹² If income distribution is sufficiently smooth the greatest part of people will be in a situation where each individual may be gratified by the admiration of those who are in the lower percentiles. At the same time, the tangible possibility to improve economic and social status will prompt individuals to exercise liberal virtues by the admiration for those in the higher percentiles.

However, “we suffer more, ..., when we fall from a better to a worse situation than we ever enjoy when we rise from a worse to a better.” (TMS VI. i. 6. 213). The psychological consequences of a sharp reduction of prospects for the middle class due to the distortion of income-welth distribution is further amplified by the fact that “poverty” (in relative terms) is viewed as a social guilt. The poor will suffer not only material deprivation, but also a condition of social invisibility and even of shame. This is grievously expressed by Smith

The poor man, ..., is ashamed of his poverty. He feels that it either places him out of the sight of mankind, or, that if they take any notice of him, they have, however, scarce any fellow-feeling with the misery and distress which he suffers. ... The poor man goes out and comes in unheeded, and when in the midst of a crowd is in the same obscurity as if shut up in his own hovel. (TMS I. iii. 2. 1. 51)

The behaviours related to the exercise of liberal virtues are emanations of prudence. However, these very same virtues are promoted by the “ease and prosperity” of a growing economy. Therefore in a stationary economy the rise of uneasiness due to economic distress might act in the opposite direction. Clearly,

¹²In the present state of things, a man of a great fortune is rather of advantage than disadvantage to the state, providing that there is a gradual descent of fortunes betwixt these great ones and others of the lowest and least fortune” (LJ, iii. 139. 196).

mere subsistence inhibits the practice of frugality and parsimony, but also industry is severely discouraged by low wages (WN I. viii. 44. 99). The loss of “plentiful subsistence” and the dissolution of a “comfortable hope of bettering his condition”, by extinguishing individual’s liberal virtues, actually reveals the corruption of prudence (TMS I .iii. 5. 63). The result is that the same moral asymmetry that in times of prosperity stimulates commercial virtues, in times of stagnation becomes a likely mean of an overall moral decay. The perception of the uselessness of liberal virtues and the resulting degradation of prudence combines with the exacerbated skewness in the distribution of wealth causing a deep feeling of insecurity (TMS VI. i. 6. 213) and a likely shift of the moral system towards unsocial passions. This situation does not only involve the discomfort caused by the fact that in the “obscurity” and “insignificancy” of poverty the poor “excites little compassion” and “its complaints are too apt to be the objects rather of contempt than of fellow-feeling” but it also entails a degeneration of the moral feelings towards people both of higher and lowest income.

The admiration that inspires the “industry of mankind” through a deceptive mechanism is a feeling between the two extremes of idolatry and envy. In this respect it is a sentiment consistent with prudence. However, if the distance separating the poor from the higher social step is too big, a frustration ensues to perceive as vain the exercise of liberal virtues.¹³ Admiration is the sentiment at the base of the legitimation of wealth and of the acknowledgement of the right of the rich to be rich. However, if the excessive concentration of wealth prevents a “gradually descent of fortunes betwixt these great ones and others of the lowest and least fortune” then admiration sinks into “envy”. Not only does “envy” constitute the moral basis for the resurging of distributive conflict (Rima 1998), but it “involves the delegitimization of the “superior stations of life”, which, from the viewpoint of “the indignation of the poor”, are now considered as “castes” and strongholds of privileges.¹⁴

The moral asymmetry by which individuals are disposed to sympathize more with fortune and wealthiness than with misfortune and poverty may have consequences upon the way the collapsing middle class morally relates to the lowest ranks of people. The commercial society offers the opportunity to be appraised and admired through the exercise of liberal virtues. However, the approach to a stationary state gradually restricts the prospects of improving individuals’ material conditions through “real and solid professional abilities, joined to prudent, just, firm, and temperate conduct”. In such a situation individuals still have to obey the laws of social nature. If social elevation is unattainable through “industry and frugality”, then the deceiving law at the core of the commercial society, i.e that social recognition is connected with the relative position on the social ladder, will incite individuals to recover their middling status by depress-

¹³Wherever there is a great property, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many. The affluence of the rich excites the indignation of the poor, who are often both driven by want, and prompted by envy to invade his possessions (WN V. I.b. 2. 710)

¹⁴Schmidtz (2013) highlights how in Adam Smith’s view inequality and monopolistic privileges might corrupt free market into “crony capitalism”.

ing those of the lowest rank of people. “The first and the principal object of prudence is security” but, if the effort of being protected from economic declension is thwarted by the unrelenting decline of wages, then the virtue of prudence is useless. A corollary of a social nature founded on the lure of wealth is that poverty is a social stigma. Middling class people strain to escape the shameful guilt of poverty, but their efforts are not directed along the “road of virtue” but work in the opposite direction. To claim their social status and reaffirm their role in society they see no other choice than to increase the relative distance between them and the inferior classes. The psychological mechanism is activated by that natural moral asymmetry. However, if the “man within” the impartial spectator is voiceless, this natural disposition may degenerate into “an inhumanity which disposes us to contempt and trample under foot our inferiors” (LRBL ii.90). The feeling of intense disdain combines with economic decline and, appealing to the conceptual scheme of Smith, a negative deception is likely to arise. Individuals will not recognize the cause of their contempt for miserable and unfortunate people in the moral degradation of their sentiments but, through the weak implementation of reason, they recognize that the efficient cause of their moral uneasiness is in the threat coming from the needs of those inferior ranks.

Beside the above explanation of the sources of individual moral change and potential sources of middle class hate for both extremes, very rich and very poor, Smith’s fear of moral decline also concerns collective morality. Smith is aware that the happiness of the individual can not exist independently from the happiness of those around her. Indeed, in Part VI of TMS, after discussing "Of the character of the individual, so far as it affects his own happiness" in the following section Smith addresses the issue "Of the character of the individual, so far as it affects the happiness of other people" concluding with an astonishing vision of "universal benevolence". However, Smith remains faithful to his pragmatism and in the concluding remarks he admits that moral universalism is out of reach of ordinary men: "To man is allotted a much humbler department, but one much more suitable to the weakness of his powers, and to the narrowness of his comprehension; the care of his own happiness, of that of his family, his friends, his country" (TMS VI. ii.3.6.237). What is worth noticing, is that collective morality is identified by the degree of "universal benevolence". It is an absolute qualitative value that can only be observed along the dimension of social distance. In this respect, it is amazing how Smith’s analytical categories fit the investigation of moral universalism offered by Enke et al (2020): what seems to matter when looking at collective morality is not the total "amount" of trust and altruism, but the degree of universalism of such attitudes. The more spread out is altruism and trust, the more likely individuals will endorse ideologies and policies at the left of the political spectrum, whereas if trust and altruism are confined within specific social categories relating to race, social class or national origin, then low universalism strongly correlates with political attitudes on the right. It is clear that even “within” left, or “within” right ideology, the degree of universalism strongly correlates with populist attitude: the less universalist are individuals the more likely they are nationalist, protectionist, and closed

border advocate, in the political sphere.¹⁵

Adam Smith comprehensive view of the commercial society actually shows how the vicious interplay between economic conditions and morality may endogenously lead to a degradation of "moral universalism". The collapse of prudence, depriving individuals of moral tranquillity and security, exposes them to uneasiness and insecurity, a psychological condition that effectively inhibits "universal benevolence". As we will show in the last section, the aggregation of moods into a shared feeling of aversion towards economic, political and intellectual elites and of contempt towards people at the very bottom of society, represents a shrinking of universal morality within the strict boundaries of a novel social and political identity capable to release individuals from their social and economic decline.

4 The Division of Labour and the Moral Consequences of Knowledge Inequality

The shrinkage of "moral universalism" which accompanies the decline of the middle class not only becomes apparent through the aversion and even the repulsion towards the threatening new poors, but also through a strong resentment towards people in the higher strata. This anti-elite sentiment, which is considered essential in almost any existing definition of populism, is incited by the vanishing admiration for the unreachable higher steps of social ladder and reinforced by the growing knowledge inequality brought about by advanced division of labour.

In Chapter one of the first Book of WN Smith discusses the division of labour as the primary cause of "improvement in the productive powers of labour". At the end of the chapter, he recognizes that with the development of commercial society the division of labour will be applied to innovation activity itself. Few "men of speculation" will be occupied in invention and, "like every other employment" knowledge will be "subdivided into great number of different branches, each of which affords occupation to a peculiar tribe or class of philosophers" (WN I. i. 9. 22-23). This appears to suggest that the expanding division of labour will be accompanied by a progressive concentration of knowledge in the hands of elites. The implications of this growing "knowledge inequality" are not worked out by Smith in Book one. However, in Book V the issue related to the advanced social division of labour is back on the stage with an astonishing analysis. The passage deserves to be quoted at length

In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations; frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The

¹⁵See also Enke (2020) for a general discussion of the role of moral values for voting.

man whose whole life is spent in performing a few simple operations, of which the effects, too, are perhaps always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention, in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard, with abhorrence, the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and renders him incapable of exerting his strength with vigour and perseverance in any other employment, than that to which he has been bred. His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society, this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it. (WN V. I. f. 50.781-782)

The above “alienation passage” excited an intense debate on how to contextualize this gloomy prospect of the commercial society into the general framework of WN. Several scholars minimize its importance.¹⁶ However, a considerable strand of literature considers the above quotation as an important connotation of Smith’s vision of the commercial society.¹⁷ For the purpose of the present analysis, it is important to underline that the moral consequences of advanced division of labour connect with those emerging from increasing inequality, outlined in the previous section, disclosing the moral surface on which

¹⁶West (1969) considers the striking view expressed in the “alienation passage” “no more than a contemporary and perhaps modish piece of authorship”. According to Kennedy (2005) the “alienation passage” is a rhetoric device to stress Smith’s recommendation for public education. Along a similar line Hill (2007) claims that the main problem with the adverse effect of the division of labour is not the inexorable degradation of the commercial society but its solution within prevailing social relations.

¹⁷Lamb (1973) emphasizes that the alienation effects of advanced division of labor represent a focal point of the debate within the Scottish School at Smith’s time. In support of the relevance of the “alienation passage” Rosenberg (1967) and Meek (1971) underline that the alienating consequences of the division of labour was a central issue of Smith’s Glasgow Lectures. According to Fitzgibbons (1997) Smith’s ideal vision of the commercial society is conceived precisely to minimize the alienation that liberalism and the creation of wealth entailed. Drosos (1996) argues that, by adequately reconsidering the internal logic between TMS and WN, alienation is not a marginal topic in Smith’s theoretical scheme.

populism may take root and grow.

The link between division of labour and inequality is clearly delineated by Smith in Chapter X of WN, as he discusses the circumstances by which “inequalities arise from the nature of the employments”. In particular, Smith highlights that “the easiness and cheapness, or the difficulty and expense of learning them (employments)” and “the small or great trust which must be reposed in those who exercise them” are responsible for “a small pecuniary gain in some employments and counterbalance a great one in others” (WN I. x. I. 1, 116). It follows that, in the progress of the division of labour, as “the employment of the far greater part of those who live by labour . . . comes to be confined to a few very simple operations” the economic distance between the mass of common workers and the “tribe or class of philosophers” progressively widens (WN I. ii. 4. 29)¹⁸. What emerges is a picture in which, along with the evolution of the division of labour, economic and social inequality keep a pace with growing knowledge inequality. The alienation passage shifts into the foreground the consequences of ignorance “into which the great body of the people, *must necessarily fall*” (emphasis added) as the transformation of the production process annihilates and makes obsolete their understanding, the industry and the ingenuity of workers that in Chapter 1 of Book I “Of the Division of Labour” drives the famous parable of the pin-maker.

The description of the consequences of social division of labour is introduced by the general statement that “the understandings of the greater part of men are necessarily formed by their ordinary employments”. Therefore, Smith clearly points out that the labour market is not only the place where economic value is produced, but also the place that moulds the “character of human nature”. The cognitive deficiency resulting from a “whole life is spent in performing a few simple operations” inevitably undermines workers’ “intellectual, social, and martial virtues”. This arises from the impairment of the two basic principles that, managing the complex relation between reason and passions, result in the golden compromise of prudence. The incapability “of conceiving any generous, noble, or tender sentiment” underlines the corruption of the impartial spectator, while the inability “of forming any just judgment concerning many even of the ordinary duties of private life” recognizes the lack of self-command. A novel individual takes the stage, totally different from the morally upright, law-abiding, frugal and industrious individual of the flourishing commercial society: A benighted human being capturable by anti-elite, anti-liberal and anti-intellectualism propaganda.

Smith’s analysis provide a suitable framework to show how these disruptive feelings arise as the endogenous outcome of a negative deception. Even if morally corrupted, individuals remain rational. Therefore, they entrust the voice of reason to recognize the causes of their moral uneasiness and distress. In TMS Smith vividly underlines that the virtue of prudence can preserve tran-

¹⁸“One of the ironies of Modern Western societies, with their emphasis on meritocratic values that promote the notion that people can achieve what they want if they have enough talent and are prepared to work hard, is that the divisions between social classes are becoming wider, not narrower” (Manstead 2018, 267)

quility even against adversity (TMS III. 3. 33. 151). However, without the effective support of prudence, individuals will react by recognizing the causes of their state of mind not in the annihilation of the impartial spectator and the corruption of self-command, but outside their moral sphere. Just like the cause of the admiration for riches is identified in the machine producing wealth thus arousing the industry of mankind, in this case the cause of moral distress is logically connected to social and economic decline and backwards to the "machine" that provoked it, the polarization of knowledge and bargaining power in labour market, those who have an interest in keeping the status quo, and ultimately the system of liberty itself. At this point resentment and indignation against the social categories which enjoy the benefits of the commercial society is a logical consequence. The refined understanding of the class of "philosophers" is not viewed as a vehicle of overall social progress, but as the exclusive privilege of the few to the detriment of the many. Consequently, the contempt for knowledge and the aversion against intellectualism emerge as a deceptive rational justification of the revolt against the status quo.

Clearly, Smith could not foresee the shadow of populism behind the degradation of social prudence. However, he is well aware that the collapse of prudence poses a significant threat to liberal institutions. Referring to the "prudent man", Smith points out that "he is sensible too that his own interest is connected with the prosperity of society, and that the happiness, perhaps the preservation of his existence, depends upon its preservation." (TMS II. ii. 3. 6. 88). Therefore, the corruption of prudence relates to the inability to comprehend the value of the "system of perfect liberty" as functional to the pursuit of private interest. The consequence is a dangerous break between citizens and political institutions. In this regard, Smith offers an illuminating clue a few paragraphs later:

The more they are instructed, the less liable they are to the delusions of enthusiasm and superstition, which, among ignorant nations, frequently occasion the most dreadful disorders. An instructed and intelligent people besides are always more decent and orderly than an ignorant and stupid one. They feel themselves, each individually, more respectable, and more likely to obtain the respect of their lawful superiors, and they are therefore more disposed to respect those superiors. They are more disposed to examine, and more capable of seeing through, the interested complaints of faction and sedition, and they are, upon that account, less apt to be misled into any wanton or unnecessary opposition to the measures of government. In free countries, where the safety of government depends very much upon the favourable judgment which the people may form of its conduct, it must surely be of the highest importance that they should not be disposed to judge rashly or capriciously concerning it. (WN V. i. f-g. 61. 788)

This quotation clarifies the social purpose of prudence. Prudence builds the fundamental tie of mutual respect between individual and institutions which

supports the stability of the civil society. Conversely, the degradation of prudence and the following spread of "ignorance and stupidity" threatens the "safety of government" by exposing people to "enthusiasm and superstition"¹⁹ and to "faction and sedition".²⁰

Differently from the consequences of oppressive inequality, which are mainly concerned with the destruction of liberal virtues, in this case Smith stresses a breaking point between individual and institutions. Without the active mediation of the impartial spectator and the supervision of self-command, people are "disposed to judge rashly or capriciously". With reference to "ignorance and stupidity" this highlights that people are then liable to process information resulting in deceptive links of causation. Following the line of this deceptive reasoning two scenarios may arise, representing the psychological process at the core of right and left oriented populism. Reasoning backwards, individuals recognize in the institutions and the basic rule of the liberal social contract the final cause of the oppressive inequality that condemn them to social and economic insecurity. This belief clearly provides the psychological mood that supports sovereignism, the distinctive trait of right wing populism. Alternatively, they may come to the conclusion that the governance of liberal institutions is actually designed to safeguard the interests of political and economic elites. In this case the final cause of social and economic distress is not the architecture of the liberal state, but the cronyism of the political establishment. In a contemporary perspective, this deception leads to the deligitimization of the established political class, which fosters the "anti-caste" propaganda of populism.

5 The Aggregation of Moods and Populism Demand

Smith underlines that "in every improved and civilized society" alienation is "the state into which the labouring poor, that is, the great body of the people, must necessarily fall". Moreover, a perpetually progressive state of commercial society is scarcely plausible within his vision of history. Several authors highlighted that the expansion of wealth due to the progress of division of labour is accompanied by grossly unjust distribution of goods (Heilbroner 1973; Winch 1978; Lamb 1973). It logically follows that a hypothetical stationary state could be envisaged within an advanced state of division of labour, thus combining the moral distortions induced by oppressive inequality with the alienation caused by working conditions. In WN economic stagnation and moral degradation do not foreshadow the collapse of commercial society, however, it is clear that the two phenomena together entail a pressure on the stability of the system of perfect liberty.

¹⁹ "Enthusiasm" is used by Smith in the archaic sense of fanaticism.

²⁰ Several scholars pointed out that the ineffective propensity and even the unwillingness of individuals to undertake action in the protection of the state may represent an actual threat to the stability of the commercial system (Heilbroner 1973; West 197; Drosos 1996; Schmidt 2013).

The consequences of the Great Recession in 2008, combined with the effects of globalisation and labor market transformations, depict a situation which bears a likeness to the gloomy vision of capitalism envisaged by Smith. The burden of the crisis which struck more heavily lower and middling classes and the increased economic uncertainty are dramatically changing the basis of social consensus and social cohesion. The effects are displayed on a global scale; advanced democracies suffer from the pressure of growing political movements inspired by populism, nationalisms and sovereignism.

The contemporary view of Adam Smith's pessimism offers a scathing picture. Oppressive inequality not only deteriorates prudence and liberal virtues, it dramatically narrows the range of "benevolence" or "moral universalism", giving rise to collective feelings of spiteful contempt for the inferior ranks of people and of rancorous discredit towards the higher strata. As seen before, the man who "is growing better and better every day" generates a crucial connection between himself and society. Therefore, the collapse of prudence, by breaking this connection, exposes individuals to self-estrangement and isolation. This is important, since at this point, we are left with an atomistic mass of people "stupid and ignorant as it is possible for a human creature to become", stuck in a poverty trap and downgraded in their social status due to stagnant growth and conditions of work. It is not a "political" mass yet. However, a human being is essentially a 'social animal' and he will try to escape isolation, self-estrangement and powerlessness by recognising, through a sympathetic mechanism, the same moral and material conditions in his peers. This aggregation of moods will necessarily develop into a "political pressure", claiming the legitimacy of new shared values and radical reforms. The collapse of liberal virtues, the delegitimization of higher ranks of society, perceived as strongholds of privileges, the aversion and even the hatred towards the lowest stations of society, the feeling of disconnectedness from society, all of these are a potential mixture so that an atomistic mass of ignorant, morally impaired, impoverished and alienated citizens might transform into a mass of "dupes revolutionaries".²¹ The aggregation of moods into a collective feeling occurs through a sympathetic process. The natural need to socialize in order to gain respect and approbation "among our equals" is stressed by Smith as "the strongest of all our desires" (TMS VI.i.3.213). This natural desire is satisfied through a sympathetic device, by which people come to recognize their actions and opinions as having a specific moral quality by discovering these in the mirror of other people reactions. As stressed by Otteson (2002), sympathy is not itself a benevolent sentiment, in terms of modern psychology it should be regarded as empathy, a mechanism that allows a correspondence between one's sentiments and those of another (Fitzgibbons 1997, 62). Therefore, people can sympathize with any passion, included the unsocial ones. The appearance of moral standards, however, requires an additional element, the natural tendency of individuals to share their feelings with "kindred souls". Smith addresses this point in the chapter meaningfully entitled "Of the manner in which we judge of the propriety or impropriety

²¹This expression is due to Schmidtz (2013).

of the affections of other men, by their concord or dissonance with our own” (TMS. I. i. iii).²² Therefore, it is the recognition of this concordance of sentiments that causes what Smith called the “pleasure of mutual sympathy.” A mass of alienated individuals degraded in their social status, morally vulnerable by the decline of prudence, sharing economic and social insecurity, is therefore extremely dangerous, since the inter-subjective sympathetic process by which each individual mirrors his moral degradation and ignorance in that of his fellows may create the basis for a renewed feeling of belonging and a newfound social identity.²³ It must be stressed that this new social identity inevitably builds on those deceptive causation links of social and economic degradation that, in reality, legitimate on a "rational" basis moral corruption and ignorance. At this point, a "political" mass is on stage together with the parade of the populist rhetoric, starting to claim its own right to economic well-being and security.

Populism is not revolutionary, in the sense that it does not question wealth as a value. Wealth still emanates its deceptive fascination. The point is that if the laws overseeing the system of liberty cannot set into motion liberal virtues, then the material well-being and the subsequent tranquillity and security necessarily becomes the claim for a right. This "right" is self-legitimated on the one hand through feelings of contempt and hatred towards those minorities seen as illegitimate competitors of welfare and social protection and, on the other hand, through the delegitimization of those elites considered to be supporting the status quo.

In modern democracies political consensus is promoted through a reformist path that gradually reorganises the institutional and legal system according to social changes and challenges demanded by the global economy. The implementation and the effectiveness of such a policy design obviously requires that the single individual understands that her interest is “strictly connected with that of the society”. The disconnection of the individual from society, at the time when the vicious interplay between economic decline and moral decay removes her from prudence, is the prerequisite for the deterioration of the communication between institutions and citizens.

Levy et al (2021), considering ignorance of people a fundamental factor giving support to populism, develop a model of political competition, in which the polarization of voters between simplistic and complex views of the world may lead to the recurrence of populist-type politicians in power. In this regard, our analysis shows that polarization of knowledge is endogenous to the process of economic development. According to Smith vision of human nature, we have shown that individuals process information through a complex mechanism which does not involve rationality only. Speaking of the consequences of

²²The so called “echo chambers” tendency has of course been exacerbated by social media technology, but Smith offers a pre-technology psychological underpinning.

²³Manstead (2018) argues that material conditions of people impact crucially on their social identity and affect deeply their perception and feelings about the social environment. In particular, he argues that observed social class differences in contemporary societies originates from differences in income and wealth which in turn are associated with differences in social and cultural capital.

economic decline on the labouring class Smith says "though the interest of the labourer is strictly connected with that of the society, he is incapable either of comprehending that interest, or of understanding its connection with his own. His condition ... are commonly such as to render him unfit to judge *even though he was fully informed.*" (WN I. xi, III. 8. 266; emphasis added). We recall that the representative individual of a progressive society "is sensible too that his own interest is connected with the prosperity of society". Therefore, the inability to process information does not reflect a cognitive deficiency, but the moral degradation of prudence. We have seen that knowledge itself, because it is meant to safeguard the privileges of elites, may be deceptively perceived as an efficient cause of economic and social decline. It follows a particular interpretation of Smith's statement "unfit to judge even though he was fully informed". Individuals may "refuse" to process information accordingly to the established cognitive paradigm. In this respect, the "simplistic view" assumption in Levy et al (2021) emerges as an endogenous outcome. The aggregation of moods then combines with the aggregation of common understandings, able to legitimize their ignorance and to clear the blame of their moral corruption.

Ken Binmore claims that, "far from being peripheral to society, such common understandings constitute the very warp and weft from which society is woven"²⁴ and coordinate the actions of individuals supporting an equilibrium "in the game of social life". Surprisingly, Smith seems to be aware of this when he writes

He [the man of system] seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great 'chess-board' of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. (TMS VI. ii. 2. 17. 233-34)

The reason is repeatedly underlined by Smith when he states that the individuals moral predisposition is strongly influenced by contingent social and economic circumstances. Therefore, as on a micro level reason does not have the power to control the process of producing moral value judgments, in the same way "the man of system" has little ability to control and steer collective moods and understandings. The problem is that the gradual shift of society towards a reformed social contract, by means of prudent reformist programmes may be ineffective. It is the very same institutional rules of the "system of liberty" to be challenged as *conditio sine qua non* to start a programme of reforms devoted to change "social nature". It is therefore clear that if people identify the origin of their economic and moral distress in the institutions in charge of guaranteeing the status quo, then through a perverse deceptive mechanism they will be inclined to invoke the "year zero" of a new era.

²⁴Binmore (1994, 3)

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