

Government interventions in the economy?

We saw in the previous chapter that Smith argues for a negative, defense only (or NDO) conception of justice, which seems to entail that the government's primary, perhaps only, job is to protect us against invasion of what he articulates in TMS as our "3 Ps": our persons, our property, or our voluntary promises (TMS: 84). That is consistent with the first two duties of government he articulates in WN, namely, protection from foreign invasion and protection from domestic invasion. But note what Smith argues is the third and final duty of government: "the duty of erecting and maintaining certain publick works and certain publick institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society" (WN: 687–8). Has Smith here opened the door to a more interventionist government than his NDO conception of justice seemed to entail?

To understand Smith's full position correctly, note first that he imposes strict qualifications on when such government intervention might be allowed: only when "it can never be for the interest of any individual, or small number of individuals to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society." Thus Smith argues that to justify such intervention, the advocate of government action must meet the burden of making *both* of two claims: (1) the public work or public institution would have to be unable to be provided by private enterprise; *and* (2) it would have to benefit substantially the whole of the "great society," not merely one group at the expense of another.

While Smith has not ruled out such intervention, then, he has shifted the burden of proof on to the person proposing it. And the threshold for making a compelling case is surprisingly high: if you believe the government should take positive action to provide a public work or institution, you would have to demonstrate both that private enterprise could not supply it (note: not merely *is not currently* supplying it, but *could not* supply it), and that substantially everyone would benefit. What possible government programs would meet those two criteria? Upon reflection, it would appear the answer is: not many. Smith himself goes on to entertain some possibilities. He considers, for example, infrastructure such as roads, canals, and bridges. But he notes that the roads, canals, and bridges provided by private enterprise—and there were such in his day, as in ours—are typically of better quality and more efficiently maintained than publicly provided infrastructure.

Smith also considers education. There were many fewer opportunities for formal education in the eighteenth century than there are in many parts of the world today, but Smith worried that if people received no education and instead spent their lives working in one narrow operation created by extensive division of labor—perhaps they spent their entire adult lives doing nothing but putting heads on the top of pins—they could become, in Smith’s vivid and almost apocalyptic language, “as stupid and ignorant as it is possible for a human creature to become” (WN: 782). But what does Smith propose as a remedy for such a potential malady? *Partially* subsidized *primary* schooling. Smith considers that the only aspects of education that everyone would need, regardless of the occupation or field or industry into which one goes, is reading, writing, and what he calls “accounting,” or arithmetic. The necessity of anything beyond that would depend on one’s particular needs given the field in which one works—and would thus be different for different people. Thus Smith suggested that public funding for the “three Rs” might be a justifiable government intervention, but nothing beyond that. Hence: primary schooling only.

In addition, however, he thought the public subsidy should be less than half the total cost—the rest being borne by the students themselves (or their families or sponsors)—to make sure that incentives are aligned properly. Teachers, Smith thought, would, like anyone else, naturally pay more attention to whoever is paying the majority of their fees. If that is the government, they will pay more attention to, and be more solicitous of, the government than

they would be of students. If, on the other hand, students (or their families or sponsors) pay the majority of their fees, teachers will naturally pay more attention to the students (families, sponsors)—which they should. Hence: partial subsidization only.

So although Smith is open to considering positive government intervention in the economy and taxation for things other than to supply NDO justice, many things that governments routinely provide in the world today would be disqualified by Smith's account. Retirement funding (Social Security, for example), welfare benefits, job training, disability, public libraries or universities, national parks, health care, and many other government programs would be disallowed—all because they could be provided privately, would benefit one group at the expense of another, or both.



The conclusions of WN are therefore largely in favor of limiting political interference in markets. Each individual knows his own situation—including his goals and desires, as well as the opportunities available to him—better than anyone else does, and certainly better than any distant legislator. Hence Smith argues that individuals themselves should be granted the freedom and the responsibility to decide how best to apply and sell their labor or goods, with whom to trade and on what terms, and so on. Smith is withering in his condemnation of meddling legislators who overestimate their ability to direct the lives of others, who presume to rule over others by legislatively substituting their own distant judgment for that of the individuals who have actual local knowledge, and who then use the predictable failures of their decisions as excuses for yet more imprudent intervention.

Yet Smith is equally condemnatory of grasping merchants and businessmen who seek legal protections of their industries or prices. “People of the same trade seldom meet together,” Smith writes, “even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices” (WN: 145). Such merchants often proclaim that trade barriers, tariffs, and other legal protections are for the good of the country, but Smith exposes these claims as special pleading, since in practice they work to increase those particular merchants' profits at the expense not only of their competitors but also of the public at large. Keeping prices up

and limiting competition will certainly benefit the favored businesses, but such policies just as certainly impose artificial costs on everyone else. Smith argues that the way to deal with such attempts to procure legally granted special protections or favors is, however, typically not to ask the government to regulate them. Instead, it is to disallow legally enforced privileges in the first place. Markets and open competition are, Smith thinks, better providers of social benefit than short-sighted regulation by politically motivated legislators—who are, after all, often remunerated handsomely by the very merchants and businesses from whom they profess to protect the public.

I claimed earlier that Smith was no anti-government anarchist, nor even a modern-day libertarian. But the Smithian government is quite small by contemporary standards. Its first and main duty is to protect justice, to protect each and every individual from invasions against his person, property, and promises. Beyond that, the Smithian government will do little. So how should we classify Smith's political economy? Is he a conservative? His advocacy of free markets and free trade seems to align with some aspects of contemporary American conservatism. Is he a liberal? His primary concern for the poor in society and for granting all citizens equal dignity and respect to construct for themselves lives of meaning and purpose, as well as his cosmopolitan view of human nature, seem to align with some aspects of contemporary American liberalism. So Smith does not fit easily to either of these categories. His own description of his system of political economy was "the obvious and simple system of natural liberty," the system that would grant all people equal liberty and responsibility, that would discharge any group from its pretensions of superintending the lives of others who are their moral peers and should be respected as such, and that would thereby not only encourage proper relations among moral equals but would enable peace and indefinitely growing prosperity. Perhaps we should leave it at that.