

ADAM SMITH'S WELFARE STATE

Generous Government Is Consistent with a Market Economy

ADAM MEYERSON

The global move to greater economic freedom, which has given the United States and other market economies seven years of sustained economic growth, continues to find favor among the world's voters. The tax revolt sweeping from Sweden to New Zealand showed its strength this spring in Japan, where the government of Noboru Takeshita was brought down as much by its planned tax increases as by corruption scandals. Poland's new Solidarity government is following the footsteps of French and Spanish Socialists and the Mexican PRI in experimenting with the privatization of state enterprises. The reelection of Canadian Prime Minister Brian Mulroney over a demagogic blaster of the U.S.-Canada Free Trade Agreement shows that voters will prefer mutual reduction of trade barriers to protectionism.

The popular embrace of markets and lower taxes, however, should not be confused with a general dislike of government. Voters throughout the world continue to support a large government role in health, education, and social insurance; generous aid to the needy; and strong safety and environmental regulation. Ronald Reagan, for all his popularity, was forced to beat a hasty retreat when he was perceived as undermining Social Security. Thrice-elected Margaret Thatcher is trying to inject market competition into Britain's National Health Service, but knows it would be political suicide to take the government out of health care altogether. The spirit of the age thus seems to favor both some sort of welfare state and greater freedom for economic decisionmakers.

Regulate Safety, Not Competition

The rudiments of an ideology of "welfare state capitalism" can be found in the most moving elegy to economic freedom ever written, Adam Smith's *Wealth of Nations* of 1776. Smith's greatest influence consisted in his systematic assault on government programs that restricted liberty: apprenticeship laws denying workmen the opportunity to choose their occupation; primogeniture laws restricting the transferability of land; state conferrals of monopoly power on favored merchants and manufacturers, keeping would-be competitors out; and import and export barriers restricting the freedom to scour the world for the best products and markets.

But, *The Wealth of Nations* also made the case for a number of government programs, among them universal public education, public health measures against contagious diseases, safety regulations such as the obligation to construct fire walls, and labor regulations protecting workmen against fraudulent payment by employers. Smith saw no contradiction between his general opposition to economic regulation and his support for safety regulation as well as programs providing opportunity for the less fortunate.

Hooray for High Wages

Smith cherished economic freedom—he called it "the system of natural liberty"—both for its own sake as one of the "most sacred rights of mankind" and because of the extraordinary prosperity it brings people of all walks of life. No "dismal scientist" in the later tradition of Malthus, Ricardo, and Marx, Smith liked the high wages he observed in high-growth market economies such as the American colonies.

He recognized 200 years ago what Communist parties and modern-day advocates of "industrial policy" have yet to learn—that ordinary people in a decentralized market will make more sophisticated decisions than even the wisest central planner. Each seller is constantly adjusting his prices and products according to his "higgling and bargaining" with customers. Each worker in a pin factory becomes an expert in his own specialized task, and, if he is sufficiently rewarded for his imagination, figures out ideas for improving his productivity. "What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him."

Compassionate Populism

The compassionate populism that drew Smith to capitalism also led him to support government programs that genuinely help people. Smith did not write in *The Wealth of Nations* that an "invisible hand" *always* connects

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the pursuit of self-interest in the marketplace to the interest of society—only that it “frequently” does so. And, despite his suspicion of those clamoring for an expansion of government—especially of merchants and manufacturers seeking monopoly power through regulation—he believed government has important responsibilities that the marketplace alone cannot provide for.

Defense, Justice, Public Works

The sovereign, according to Smith, has “three duties of great importance”: defense against hostile foreign powers; the administration of justice and the protection, as far as possible, of “every member of the society from the injustice or oppression of every other member of it”; and the erection and maintenance of “public works” and “public institutions” that serve the general interest but generate too little profit to individuals to be provided by the marketplace. The last two categories leave considerable room for interpretation, and Smith was generous in what he included.

Under the duty of “justice,” Smith did not confine government to the enforcement of contracts and property rights. He also praised regulations that preemptively protect people from injury by others. Laws requiring workers to be paid in money rather than goods were thus a justifiable protection against fraud by their employers. Public safety and health rules were necessary to protect the spread of fire and contagious disease.

Under “public works,” in addition to canals, turnpikes, bridges, and harbors, Smith called for a universal system of basic education such as existed in his native Scotland, where almost the entire population had learned to read and a majority knew how to write and account—to the great benefit of the Scottish economy. “For a very small expense,” Smith wrote, “the public can facilitate, can encourage, and can even impose upon almost the whole body of the people the necessity of acquiring those most essential parts of education.” To enforce attendance, or at least mastery of the subjects taught in school, Smith suggested that passage of an examination be a prerequisite for entering trades.

Alleviating Suffering

Apart from these three duties of government, Smith was willing to entertain departures from the marketplace wherever complete economic freedom would lead to human suffering. Should the abolition of tariffs throw thousands out of work, for example, he wrote that “Humanity may...require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection.” In most cases, he argued, restrictions on economic freedom cause more suffering than they alleviate; thus price controls on corn convert the inconveniences of a shortage into the miseries of a famine. But where freedom can genuinely be shown to lead to suffering, he would not dogmatically oppose government intervention.

The historian Gertrude Himmelfarb has suggested that Smith implicitly endorsed the principle of poor relief. Though Smith sharply criticized England’s Settlement Laws for permitting the exclusion of indigent

newcomers, he made no mention, neither positive nor negative, of the law’s requirement that each parish provide alms to needy citizens of more than 40 days’ residence. He favored modest income redistribution through the tax system, recommending higher taxes on luxuries than on necessities and higher turnpike tolls for the carriages of the rich than for the wagons of the poor.

Limiting Leviathan

Smith favored neither minimal nor leviathan government. Government had many responsibilities, but its size was to be limited by six principles:

- 1) Taxes should be kept to a moderate level, to keep alive prospects for economic growth in the private sector.
- 2) Public works should be substantially financed by those who most benefit from them—for example, turnpikes and bridges by tolls on users.
- 3) Public responsibilities should be contracted to private organizations, unless this leads to monopoly power that is likely to be abused.

Smith supported universal public education, public health laws, and labor rules protecting workmen against fraud by employers.

4) Government programs that don’t work should be abandoned. Ever the pragmatist, Smith supported retaliatory tariffs if he was convinced they would lower the trade barriers of other countries. If they failed to do the job, however, pragmatism required that the retaliatory tariff quickly be eliminated.

5) Government programs benefiting a locality or province should be financed by local or provincial revenue, and administered by authorities accountable to the local or provincial population—as a safeguard against slipshod management and abuse of power.

6) The accountability of market competition should be replicated in government. Smith suggested, for instance, that teachers not be automatically paid full salaries—lest they become slothful or teach subjects of little use to students. Instead teachers’ pay should come at least partly from fees of students allowed to select their instructors—a precursor of “choice in education.”

The Wealth of Nations gives no guidance on the biggest budget-buster in most countries today—providing income and medical care for the elderly. Nor does it really cover environmental policy, emerging as one of the great issues of the ’90s. But for lovers of economic freedom who seek to govern, and therefore must get elected, Smith offers an intellectual framework for a generous and compassionate government consistent with a competitive market economy. 🏠

PRAGMATISTS FOR LIFE

Banning Abortions Is Not Always the Best Way to Reduce Them

JOHN-PETER A. PHAM

The Supreme Court's ruling in the case of *Webster v. Reproductive Health Services* has probably begun the unraveling of its earlier *Roe* decision granting almost unlimited abortion rights under the Constitution. It is still unclear whether *Roe* will go in one dramatic act or die slowly of a thousand wounds administered over the course of time. Either way the result is the same: the question of abortion is being returned to the arena from which it was severed by the 1973 ruling, the political processes of states and local communities.

For pro-life forces, the issue posed in the wake of *Webster* is how to effectively reduce the number of abortions from the 1.5 million currently performed annually. As David O'Steen, executive director of the National Right to Life Committee, notes, the goal of the movement is to "save as many children as we can as quickly as possible." If that is the goal, then what is required is an innovative political strategy that differs from state to state. More importantly, there needs to be a cultural and social anti-abortion strategy whose success is independent of legislative and regulatory whims.

Most states fall into one of three categories: states where there is widespread support for increased restrictions on abortions, states with strong support for legal abortions, and the majority of states—where large segments of the population are ambivalent and the battle could go either way depending on how the terms of debate are framed.

Testing the High Court

In a number of states, either through historical consensus or political predominance, anti-abortion sentiment runs high and the likelihood of increased restrictions or regulation is greatest. These include Missouri, Pennsylvania, Louisiana, and South Carolina, which have been on the forefront of recent anti-abortion legislation, as well as Arkansas, Arizona, Illinois, South Dakota, Texas, Utah, Wyoming, and most of the southeastern states.

Most of these states have either already passed or are considering parental consent and informed notification laws that go the maximum extent allowed by current Supreme Court interpretations. An Illinois case set to

come before the High Court this term, *Turnock v. Ragsdale*, will seek to further the scope of such legislation. Many of these states have passed some sort of "abortion neutral" legislation such as the Missouri legislation upheld by *Webster* that banned the use of state personnel, facilities, or funds to perform abortions save where the life of the mother is threatened.

In these states, as suggested by Victor G. Rosenblum, acting chairman of Americans United for Life and a Northwestern University law professor, "The real cutting-edge legislation will be the legislation that puts prohibitions on abortions after the 20th week." In its *Webster* decision, the Supreme Court acknowledged that states can have a "compelling interest in protecting potential human life" and hinted that a reasonable point at which its interests may be safeguarded is viability, generally thought to be around the 20th week. Legislation such as that suggested by Rosenblum would be a real test of the High Court's intentions and have a greater chance of passing constitutional muster than broader bans.

Broader legislative bans on all abortions except in the cases of rape, incest, or endangerment of the life of the mother could possibly pass many legislatures in these states, but would not be prudent until another anti-*Roe* justice is appointed to the Supreme Court. With the current membership of the court, and particularly with the very hesitant Sandra Day O'Connor as the crucial swing vote, a ban that directly challenges *Roe* could provoke the High Court to do what it would not do otherwise: reaffirm *Roe*, thereby setting the anti-abortion movement back to the pre-*Webster* days of uncertainty.

Regulating Abortion for Safety

A different strategy is called for in those states with a consensus in favor of legal abortions or at least a very strong pro-abortion force. These include New Jersey, Massachusetts, and California, whose state supreme courts have found abortions to be protected by the state constitutions; Washington and Delaware, states which had legalized abortions before *Roe*; and states with

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