

Chapter 10

The role of government

One might be surprised to learn that Adam Smith did not advocate or rely on a theory of natural law or natural rights. He had read his John Locke (1632–1704), of course, and the surviving students' notes from the lectures on jurisprudence he gave at the University of Glasgow—Smith's own lecture notes do not survive—record that Smith extensively discussed Locke's theory of natural law and natural rights. But when it came to Smith's own discussion of and justification for the proper role of government in human life, natural law and natural rights play no role. Similarly, Smith gave us no overt theory of property, let alone private property. So unlike Locke—and the American founding fathers, many of whom read Smith—Smith does not argue that the government's job is to protect our natural rights to “life, liberty, and estate” (Locke) or to protect our “unalienable rights” to “life, liberty, and the pursuit of happiness” (Jefferson in the Declaration of Independence).

On what basis, then, did Smith justify his recommendations about the proper roles of government? His argument proceeds largely empirically. He examined human history, and many of the experiments different people in different times ran with differing systems of political economy. He found that most such experiments failed to conduce to people's overall happiness and failed to create general prosperity. But occasionally some people hit on ideas and institutions that did generate benefit, and very recently (in his day) some few places seemed to be generating considerably more wealth and prosperity than other places. This enabled Smith, as an empirical political economist, to make fruitful comparisons, and to begin to tease out of the historical record some policies that might, if applied more extensively, allow the generation of even more prosperity.

The first conclusion he reaches is that a specific concept of “justice”—including, as we saw in Chapter 4, the “sacred” protections of every individual's person, property, and promises—is necessary for any human society

to survive. A society that does not respect these things, that does not enforce protection of them, and that does not punish infractions of them is one that is headed, sooner or later, for collapse. Or, a society that only selectively enforces such protections—one that, perhaps, respects the “3 Ps” of some privileged people or some favored groups, but not those of other people or groups—is one that may manage to survive for some time but will have forsaken the greater prosperity it otherwise would have enjoyed. Similarly, a society that did at one time provide widespread protection of its citizens “3 Ps,” and thus experienced the increasing prosperity to which this leads, but now begins to depart from those protections, will soon begin to slow the growth of its prosperity; if it continues on its path of departure from the protection of the “3 Ps,” it will eventually stagnate, decline, and, if it does not reverse course, it will collapse. Now, Smith wrote that “there is a great deal of ruin in a nation” (Smith 1987: 262n). Thus a great nation, meaning one that has built up a lot of prosperity, can endure “in spite both of the extravagance of government, and of the greatest errors of administration” (WN: 343). Even in such a case, however, the nation will not be as wealthy, and its citizens will not be as prosperous, as they otherwise would have been.

Smith writes in the first chapter of WN: “It is the great multiplication of the productions of all the different arts, in consequence of the division of labor, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people” (WN: 22). As we saw in Chapter 6, what Smith means here by “well-governed” is articulated in his discussion of “justice” in TMS—which, as we just mentioned, comprises the protections of person, property, and promise (TMS: 84). We can conclude from these two passages that Smith believes that the primary duty of government is the protection of (his conception of) justice. Moreover, as we saw in Chapter 4, this conception of justice is a “negative” one, requiring only that we refrain from injuring others. A government reflecting this conception of justice would be summoned into action only upon the infringement of someone’s person, property, or promise. We might consider Smith’s conception of justice, then, a “negative, defensive only” conception of justice, or “NDO” conception, one whose core purpose is provide us defensive protection against infringements. Finally, as we again saw in Chapter 4, all of the various positive duties of beneficence that we have are not, according to Smith, duties of government, but, rather, duties of us as individuals (and as voluntary and private groups).

When Smith comes to describe in WN the duties of government, we should expect, therefore, that he would articulate a government whose purpose is to protect NDO justice—and little (or nothing) else. And that is indeed what we find. Smith actually spends far more time in WN describing the ways that government makes mistakes, overreaches, and engages in counter-productive activities, sometimes through corruption and sometimes through incompetence, sometimes with malice and sometimes unintentionally. But Smith is not an anarchist; he is not even a principled modern-day libertarian. Instead, he articulates a positive and robust role for government, though he limits its powers and authorities to a small range of specific duties.

Smith describes his recommended duties of government in a few places in WN. Here is one key passage:

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public 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)

There is a lot in this passage; let us unpack and emphasize a few details.

First we should note that what Smith calls the “obvious and simple system of natural liberty” is consistent with the NDO conception of justice he articulated in TMS. As long as one “does not violate the laws of justice,” one is “free to pursue his own interest his own way.” Smith then specifies one implication of this freedom by stating that everyone may “bring both his industry and capital into competition with those of every other man, or order of men.” This means that there should be no barriers to entry; there should be no restrictions on trade, occupational license requirements, or mandatory apprenticeships; there should be no royal charters or state-granted monopolies; there should be no mandatory price ceilings or price floors, no mandatory minimum (or maximum) wage; and there should be no other artificial barriers, costs, or restrictions preventing, or unduly burdening, anyone from entering any occupation or competing in any market.

Second, Smith here recapitulates the Local Knowledge Argument (discussed in Chapter 7), which holds that individuals are themselves best positioned to know how they should deploy their scarce time, talent, and treasure in the service of their ends, and that legislators or other distant third parties are in no position to make such decisions for others. When Smith writes here that “no human wisdom or knowledge could ever be sufficient” for “superintending the industry of private people, and of directing it towards the employments most suitable to the interest of society,” he is warning us against what we might call the “Great Mind Fallacy” (Otteson, 2010). One commits the Great Mind Fallacy when one recommends policies or authorities that could succeed only if there existed some Great Mind that possessed all the relevant knowledge about individuals and their circumstances—including their changing values, purposes, and opportunities. Because, alas, no such Great Mind exists, policy recommendations predicated on the existence of such an entity are doomed to fail. Yet people routinely commit the Great Mind Fallacy, even today, perhaps in part because they flatter themselves by thinking that they themselves are such Great Minds. Smith here warns us to beware such pretensions: the person fancying himself able to play such a role “must always be exposed to innumerable delusions.”

Third, Smith gives us in this passage the three main roles he believes government ought to play. The first two are: (1) “protecting the society from the violence and invasion of other independent societies”; and (2) “protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it.” The first would entail a military, but for defensive purposes only; the second would entail police and a court system, again to protect us from injury and punish those who injure us. Both of these duties would fall squarely under Smith’s NDO conception of “justice.”

But note Smith’s third duty of government: “erecting and maintaining certain publick works and certain publick institutions.” This would seem to open a door to positive intervention in the economy. But hasn’t Smith’s entire argument been against such intervention? Here we see one consequence of Smith’s decision not to rely on a conception of, say, natural law and natural rights, which might perhaps provide a principled argument against government intervention. Instead, Smith, as an empirical political economist, wishes to remain open to the possibility that the government might do more than merely protect NDO justice. But is Smith advocating for a more interventionist government than would be implied by his NDO standard? We take up this question in the next chapter.