

Competing Perspectives on the Proper Role of Government

Heather Schmidt, M.PA
HeatherSchmidtConsultingService



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INTRODUCTION

Adam Smith's philosophy of the invisible hand argues that guiding economic policy by way of self-interest, the free market, and limited government intervention into articulating the public good is optimal in the modern world. However, over the 200-some years since it was written, much speculation has been had over the efficacy of the invisible hand as a universally effective and fair economic policy. This paper will discuss Smith's invisible hand concept and criticisms of his philosophy, and the ways in which this has resulted in the economic policy of the United States and the world today.

THE INVISIBLE HAND

Adam Smith's economic policy is a capitalist one, which argues that (Stiglitz & Rosengard, 2015) personal or individual self-interest should be the single guiding principle of an economic policy. In it, Smith suggests that if (Stiglitz & Rosengard, 2015) each individual acts purely out of their own self-interest, the market will in effect work on its own - "like an invisible hand" (pg. 62) - toward the public good. It does this by (Stiglitz & Rosengard, 2015) spurring competition and innovation for that which is desired, and letting goods die that the public does not need enough to withstand the free market. This concept of Smith's was built upon theory, and chance, based on (Stiglitz & Rosengard, 2015) his personal observations and anecdotes of others relative to different governments and their economic policy successes and failures.

Smith's policy is capitalist in that it relies upon the free market to make its own corrections for supply, demand, commodity needs, and innovation. It is credited as (Jahan & Mahmud, 2018) the bedrock upon which modern capitalism is built; and is the basis in some

form for almost every economy in existence today. Economists herald capitalism as (Jahan & Mahmud, 2018) built upon pillars of (what those touting it believe to be) excellence: self-interest, freedom, individualism, competition, and limited government.

In the centuries since Smith's economic philosophy was formulated, a wealth of studies have examined the efficacy of the invisible hand and free market capitalism. While many economists (Stiglitz & Rosengard, 2015) still support this notion of free market determinism, studies have overwhelmingly proven the system to be inherently flawed in its purist form. Without government intervention at certain times of economic contraction or in certain sectors subject to worker abuse, public good becomes more difficult to find.

REACTION TO MERCANTILISM

Smith's economic philosophy was based upon practicality and a reaction to mercantilism.

Smith considered it to be practical to consider, or assume, that most individuals did not act out of a pure notion of public good. This is where the concept of (Stiglitz & Rosengard, 2015) self-interest came into play, and was formulated especially as a reaction to mercantilism.

Mercantilism is (Stiglitz & Rosengard, 2015) an economic policy that places government at the center of wealth. During Smith's life, mercantilism was predominant economic philosophy, and allowed government intervention in industry and trade to dominate public life. The result of mercantilism's belief system, though, is (Stiglitz & Rosengard, 2015) the justification of government-led expansion, which historically has led to war, colonialism, and hardship (due to funds spent on war). Having observed countries engaged in mercantilism create more public harm than good, Smith outlined his invisible hand policy as an opposing force that reduced

government intervention to give the economy to the free market. In doing this, Smith believed (Stiglitz & Rosengard, 2015) it a practical strategy to align public goods and commodities with greatest social benefit, and reduction of harm.

DOCTRINE OF LAISSEZ-FAIRE

Smith's invisible hand philosophy quickly led to the adoption of laissez-faire economic policies around the world. Translated from French as "let it be," the laissez-faire doctrine effectively drew on Smith's concept of self-interest and (Stiglitz & Rosengard, 2015) the idea that the free market would work itself out, to become a widely held belief that government should have little to no involvement in the economy at all.

One prominent critic of his time was Karl Marx, who argued that free market capitalism – or Smith's "invisible hand" - was (Gurley, 1984) built on the backs of a working underclass. He called this underclass the proletariat. Similar to how Smith argued from anecdote, Marx argued oppositionally based on (Stiglitz & Rosengard, 2015) observance of governments that remained uninvolved in economic activity, as Smith's philosophy requires. In doing so, Marx believed that (Gurley, 1984) the necessary consequence of unfettered free market capitalism would eventually lead to abuse of the proletariat.

From a realistic vantage point, Marx's reaction to the doctrine of a laissez-faire economy is evident. Smith argued that the free market would allow for publicly available goods and commodities to work themselves out based upon demand, competition, and innovation. Things that were of personal use and interest would necessarily survive the market; whereas things less popular or of little to no need would die. Though this policy failed to (Gurley, 1984) recognize

two distinct factors that Marx adjusted for: (a) pre-existing wealth (for participation in the free market), and (b) the variability of individual circumstances beyond wealth.

This inevitably, according to Marx, would (Gurley, 1984) lead to unfair disadvantages, hardship, and harm (or outright abuse) of the working class.

MIXED ECONOMY

Another prominent critique of Smith's invisible hand philosophy was eventually formulated by (Jahan & Mahmud, 2018) John Maynard Keynes, shortly after the Great Depression. The Great Depression of the 1930s, as well as other observed times of economic contraction in world history, evidenced that (Jahan & Mahmud, 2018), there would be times in which the free market was not able to work itself out to maximize the public good, much in the way Marx had suggested. Keynesian economic philosophy suggested that a mixed economy was, therefore, the correct course of action (Jahan & Mahmud, 2018): that in some times and circumstances, the free market should be unequivocally in control; whereas, in other times and circumstances, the government should intervene. This has further been evidenced as optimal since then, through (Stiglitz & Rosengard, 2015) a wealth of studies about the success of mixed economies, as well as (Powell, 2018) the positive overall economic and social benefits of regulations on specific circumstances, in particular relative to regulatory actions over working conditions.

CONCLUSION

There is still, however, a significant divide in the United States over to what extent the government should be involved in the economy. Staunch proponents of Smith's invisible hand philosophy tend to be purists in the sense that they argue for an entirely laissez-faire economy, even when it has been evidenced to directly cause harm at the individual level. Furthermore, as the wealth gap in America continues to grow, it has become evident that there is a need for government intervention in a variety of capacities. Without it in a permanent capacity in certain sectors (e.g., healthcare, environment, etc.), those systems may eventually collapse. Complicating this is today's Supreme Court and its individualistic interpretation of the Constitution. This court tends to favor Smith's system over government intervention, even in circumstances under which negative externalities are resulting in great social harm.

Nevertheless, Adam Smith's invisible hand philosophy, as well as many of his contemporaries, can be credited with building the foundation upon which the United States, and much of the world, economy is built today.

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