

## LESSON 14      **Should the Government Role Be Laissez-faire or the General Welfare State?**

### Background Information

After the Civil War, thinkers in the United States (and also in Europe) engaged in a great philosophical debate about the proper role of government in society. They argued about whether the government should help the poor, regulate business to protect workers and consumers, promote labor unions, run public education and post offices, control the money supply, keep high tariffs, and many other issues.

Some thinkers believed in a philosophy called “laissez-faire” which basically means hands off (literally “allow them to do”). They wanted the government to be reduced to the smallest size and fewest functions possible. They felt the proper role of government was to protect life and property. Nothing else. The government had no positive role in helping the general welfare.

The philosophy of laissez-faire came from a number of sources, two of which were classical economics and Darwinism. Classical economics is represented in the first viewpoint by Adam Smith. Classical economists were reacting against government interference in the economy under the philosophy of mercantilism. They felt government interference was inefficient and hurt economic growth. The second source of laissez-faire was derived from the views of Charles Darwin. In 1859, Darwin published *The Origin of Species* in which he argued that species had evolved, they were not created. Competition for survival in nature is fierce—only the fittest survive. The few that do survive and reproduce the next generation have been selected naturally. Thus the survivors of any species are changing over generations as they adapt to changes in the environment. It

should be noted that Darwin never wrote that his theory of nature should apply also to society. The social Darwinist source of the laissez-faire philosophy is represented here most directly by Herbert Spencer and William Graham Sumner. Social Darwinists believed that government involvement in society interfered with the natural selection of those best suited to survival in society.

The philosophy of the general welfare state, called the Social Gospel, was partly a reaction by Christian thinkers in the United States. These thinkers, represented here by Washington Gladden, felt individualism had gone too far and needed to be balanced with Christian concern for one’s neighbors. The general welfare state philosophy also was a reaction to rapid changes in society resulting from industrialization and urbanization. These thinkers felt the laissez-faire approach was not helping solve the problems arising from industrialization.

Each of the viewpoints that follow is a summary of what that thinker wrote. Some of these thinkers wrote thousands of pages, so remember that these viewpoints are very simplistic summaries of what they said. Read the viewpoints and fill in the sheet your teacher gives you. The first five thinkers (A-E) are in favor of laissez-faire while the second five (F-J) favor the general welfare state. They are arranged in the order in which they wrote.

Keep in mind that there are differences within each group of thinkers. Some believe the principles of laissez-faire or general welfare state should be applied in every case, while others allow for exceptions.

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The question we want to answer is: “To what extent should the government interfere in society?” Proponents of pure laissez-faire say the government should stay out

of society, while proponents of the general welfare state say the government has many legitimate roles in society.

### Thinker A

Adam Smith (From *The Wealth of Nations*, 1776)

(1) Self-interest is what motivates people to do things. Each individual knows much better than the government what is best for himself. To further his economic self-interest each person sells his labor or produces goods that people want to buy. No one sells unless he feels he is getting the best (highest) price that he can get. No one buys unless he feels he is paying the lowest price under the circumstances. Therefore, every sale in the marketplace is a transaction in which both people feel they have increased their self-interest. (If they did not, they would not have bought or sold.) Thus, the sum total of all the millions of sales is that millions of people have benefited. In this way, by each person doing what he thinks is best in the marketplace for his own self-interest, the general welfare of all the people in society is improved.

(2) Moreover, the marketplace is extremely efficient, since it reacts immediately to changes in demand and

supply. Government can never adapt fast enough to the millions of changes in the market which take place from day to day.

(3) The area of labor is also controlled by the market. An employer, to serve his self-interest, will try to hire as cheaply as possible. A laborer, to serve his self-interest, will attempt to get the highest wages he can. The prices arrived at will be subject to the natural law of supply and demand. Unionization, a form of monopoly, only serves to interfere with the free operation of the market, which leads to labor shortages, inefficiencies, and poor work.

(4) When the marketplace is left uncontrolled to work according to the laws of supply and demand, everyone’s economic freedom is assured since no one individual is in control of events. It is when the government interferes in the market that the economy becomes less efficient, freedom is restricted, and economic growth retarded.

### Thinker B

Herbert Spencer (From *Social Statics*, 1851; *The Study of Sociology*; 1896 *The Principles of Ethics*, 1897; and other writings)

(1) Animals are in a constant struggle for survival. The fastest water buffalo survive while the slowest and weakest are killed first. In this way, nature weeds other inferior members of each species and thereby constantly improves them.

(2) Just as in these lower creatures, humans also are involved in a struggle for existence. If the human species is to be preserved, it, like all other species, must permit benefits to flow to people

according to their merit (that is, their ability to survive). If each person received the benefits or suffered the evil results of his own actions (the law of conduct and consequence) the individuals best adapted to their environment would prosper most, those least adapted would prosper least, and, as a result, the fittest would survive and human progress would be assured.

(3) On the other hand, any interference with the law of conduct and consequence only hurts the welfare of humans. Were

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## Thinker B

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the superior individual in any way made to assume the burdens of the inferior, the superior would be held back and the inferior, the good-for-nothings, would increase faster. Society would be populated by fewer people of merit and more inferior people. The natural process by which society continually purifies itself would be stopped.

(4) This law of conduct and consequences (leading to survival of the fittest), is closely associated with a second, the law of equal freedom. In this law, every man has freedom to do anything he wants, so long as he does not interfere with the freedom of any other man.

(5) It follows from these two laws that the government should limit itself to the administration of justice (for example, judging claims in court) and protecting citizens from crimes and invasion of other countries. Every other expansion of government is wrong. It limits people's freedom and interferes with survival of the fittest.

(6) Laws to help the poor, sanitation laws, public education, government-owned post offices, regulation of currency (money supply) and working

conditions, public works, and tariffs are all examples of too much government, since they all go beyond the minimum role of government to provide justice and protect against invasion. Public education, for example, takes tax money from many people, thus limiting their freedom, and provides education free to the children of some people, thus relieving them of their parental responsibility to educate their own children.

(7) Legislators (lawmakers) do not realize that their laws always have unintended, negative long-term effects. Since society is so complex, there is no way to calculate these effects. Society changes very slowly according to a gigantic plan. The government official comes with his puny laws to put a patch upon nature. He dares to announce that he and his colleagues have found a way to improve upon the Divine plan.

(8) The history of mankind is the progression toward less government. As society develops a stronger moral sense, people operate more freely, and government has fewer functions. Thus does society advance.

## Thinker C

William Graham Sumner (From Albert Galloway Keller and Maurice Davie, eds., *Essays of William Graham Sumner*, 1934. The essays were written in the late 1800s.)

(1) Societies are controlled by natural laws just as the universe is controlled by natural laws. All of mankind's social activity is determined (controlled) by the stage of industrial organization existing at the time. So, government interference cannot change the existing situation.

(2) What government does is harmful in other ways, however. It undermines the personal freedom of the individual.

For, when government interferes in people's lives, it tells them what they can and cannot do. Government interference, such as factory laws (to improve working conditions) and child labor laws, is also wrong because it is against the laws of nature.

(3) It is true that we have rich and poor in our society, but that is to be expected. The rich industrialists (owners of large industrial corporations) deserve to be rich as a reward for their work which brings about advance to society. On

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### Thinker C

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the other hand, the situation of the poor are mostly their own fault. The poor are poor because they are lazy. If every man were hard working and wise, and if he brought his children up to be the same way, poverty would be abolished (done away with) in a few generations. Everyone is entitled to a chance, but not to success.

(4) True, we as a society should take care of true paupers and the physically handicapped who need help. But the social reformers want to help the poor in general. Whatever money is used to support the shiftless and good-for-nothing person (which many of the poor are) cannot be used for whoever had the money before, likely a hard-working person. The poor are poor because they produce less than the middle class and wealthy. If poor people produced something useful for society, they would no longer be poor since society would pay them to get it. Thus, the poor are less productive than the rest of society. If money is diverted (turned to a different use) by the government from the middle class and wealthy to the poor, it is really being diverted from the productive part of the economy to the unproductive part of the economy. As more money

is put into the unproductive part of the economy, fewer goods are produced (since less money is in the part of the economy which produces goods). Thus, the next year the economy is not as big as it would have been if it had been left alone. Since there is more poverty resulting from this lack of growth, more money is spent to help the poor (i.e., diverted to the unproductive part of the economy). The net result after several years is that because of government aid to the poor, everyone, including the poor, is worse off! The pie graphs below illustrate this argument. Obviously, the poor are better off with a same-size share of a larger economy, than a larger share of a progressively smaller economy.

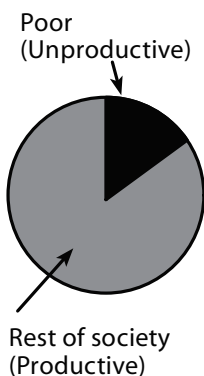
(5) Human society is too complex for the human mind to understand, let alone change through reforms or government laws. Society is not something artificial that can be changed, it is an organism (a living thing) which changes despite our attempts at interference. When we try to get rid of one evil, we cause another.

(6) Moreover, history demonstrates that, ambitious persons have always tried to gain control of the government so as to live off the earnings of other

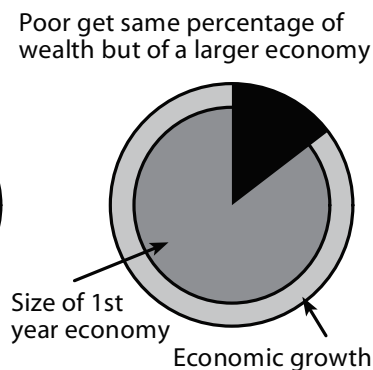
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Without Government Aid to the Poor

YEAR 1

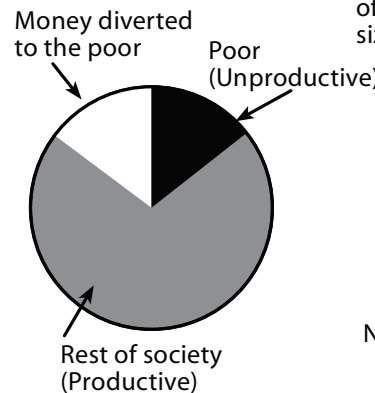


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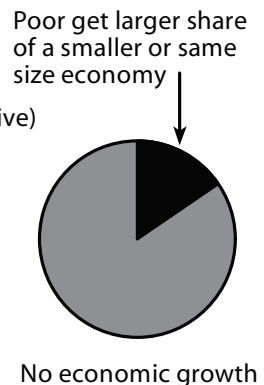


With Government Aid to the Poor

YEAR 1



YEAR 2





## Thinker C

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persons. Reformers pass laws and set up agencies to help the public, but the rich people end up controlling the agencies. The main person who ends up paying for all these schemes is the “forgotten man.” He is the average taxpaying middle-class citizen who is honest and independent and who asks no favors for himself. We must reduce the government to prevent the rich from using their economic power to gain political power also, and to allow the “forgotten man” his freedom to produce goods that end up benefiting society.

(7) The evidence is that the poor like their life, because it satisfies their

strongest desires. They should not get help from society. By letting them alone, we cure the problems of poverty, crime, and filth by nature’s method—we allow many of the poor to die in the struggle of the survival of the fittest. In this way society cleans out the less fit.

There are only two choices: liberty, inequality, survival of the fittest; or not-liberty, equality, survival of the unfittest. The first way makes for civilization and progress, the second way brings anticivilization and retrogression (going backwards).

## Thinker D

Andrew Carnegie (From *The Gospel of Wealth*, 1900; and other writings)

(1) Freedom is the right of each person to gain as much wealth as he can through hard work and thrift. Equality is equal opportunity for financial wealth, not welfare by the government taken from the rich through taxes and given to the poor. Progress does not come from the government but from the ever-increasing production of industries.

(2) If there is to be any charity for the poor, it should come from private individuals giving voluntarily, not from the government. The rich, in fact, have an obligation to use their money to benefit mankind.

(3) The price which society pays for the law of competition, like the price it pays for cheap comforts and luxuries, is great, but the advantage of this law is our wonderful material development and improved conditions.

There is no substitute for the law of competition, and while the law may be sometimes hard for the individual, it is best for the race, because it insures the survival of the fittest. We accept and welcome, therefore, great inequality, the concentration of business in the hands of a few, and the law of competition between these few, as being beneficial and essential for the future progress of the race.

(4) Since each individual in his pursuit of wealth unconsciously promotes the general good, those who are most successful in getting wealth (millionaires) are the most successful in promoting the general good. The millionaires are the bees that make the most honey, and contribute most to the hive, even after they have gorged themselves full. Since they contribute the most to the economy, the successful businessmen deserve the largest share of what is produced.

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### Thinker E

Horatio Alger (Alger wrote children's fiction books, such as *Ragged Dick*, 1867. His ideas are inferred from the stories in the books.)

(1) People rise from poverty by working hard, being thrifty, and seizing “the main chance.” When people do some good deed, they are rewarded with good luck.

(2) The capitalist system rewards people who have ability and work hard by allowing them the freedom to gain riches. Such a system which provides an opportunity to everyone for getting wealth should not be interfered with by government.

### Thinker F

Henry George (From *Progress and Poverty*, 1879)

(1) Why is it that in America we have the “House of Have” (great wealth) and the “House of Want” (great poverty) Standing side by side? It is from the unearned increase in the value of land which the rich get, since all economic advances come from the productive use of land. For example, the value of land would go up if a railroad was built through an area. But a report of the coming railroad would send land speculators rushing in to buy up the available land. The value of the land would multiply several times over. The speculators would then charge rent to the rest of the population. Notice that the speculators did nothing to improve

the land, but they made all the profit. Meanwhile, the people who labored to improve the land, the workers on the railroad, received none of the profit. In fact, the workers got charged more rent for the land they improved.

(2) It is certainly a terrible situation which creates progress for the useless landlord and poverty for the useful worker. From this basic injustice flow all the injustices in our society, which condemn the producer of wealth to poverty and give the nonproducer wealth and luxury.

(3) To solve this problem, the government should tax the unearned growth in land values and should use the money to help the rest of society.

### Thinker G

Richard T. Ely (From *The Labor Movement in America*, 1886; *Studies in the Evolution of Industrial Society*, 1909; and other writings)

(1) There are a number of flaws in the thinking of those, such as Adam Smith, who support the philosophy of laissez-faire. First, they base their theory on general economic laws which never change. But as Darwin has shown, all life changes, so economic theories are just an outgrowth of the economic conditions of the time. Economic theories must, of necessity, change. A look at economic information shows that classical, laissez-faire economics arose in a preindustrial

society in reaction to mercantilism. Today (1880s), however, we live in a much more complex industrial society—too complex for the simple models of the classical economists.

(2) The classical economists say that man is motivated by self-interest and self-interest brings about general benefit for society. But man is obviously motivated by reasons other than self-interest, such as devotion to principle and a sense of helping one's fellow man. Also, the interests of the individual and the interests of society are not

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## Thinker G

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identical as shown by the destruction of the countryside to get resources. Private self-interest is too immoral and too shortsighted to promote the public good.

(3) Proponents of laissez-faire say the government is too inefficient and corrupt to accomplish anything worthwhile in society. The governments are not effective, however, precisely because the laissez-faire philosophy keeps them restricted. This weakness in government has persuaded men of talent to offer their services to private companies. Also, weak government is easy prey for powerful corporations. If the government were given more important duties, men of talent would be attracted to public service; the government would become more efficient; and it would be better able to resist the corrupting influence of special interests (for example, lobbyists for the railroads).

(4) The laissez-faire society stresses the negative aspects of liberty (let people do what they want without regulation). But under laissez-faire everyone's liberty is reduced. There are greater inequalities in wealth, abuse of the weak by the strong, and little opportunity for many people. By stressing regulation in the name of the public interest, government could bring about more opportunity for the bulk of the population and thus enhance liberty.

(5) While competition is a necessary part of our economy, industrialization brings a great deal of unequal competition. For example, unorganized workers cannot compete on an equal

basis with industrial employers (owners) who can fix wages at a very low level. Workers have the right to organize into unions to make the competition more equal. Government must protect that right.

(6) Some social Darwinists feel that individualism is a great ideal of Christianity and that competition is morally right. But extreme individualism is morally wrong—it leads to the breakdown of society. Cain (from Cain and Abel in the Bible) was the first extreme individualist when he asked if he were his brother's keeper. Laissez-faire policies assure us that we are not keepers of our brothers, that each one best promotes (advances) the general interest of society by promoting his own. Actually, the main way to protect the public interest and insure fair competition is through government involvement in the economy.

(7) Man is much more than an economic decision-maker. He is involved in many relationships and is motivated by political, social, psychological, religious, and ethical reasons. Economics should be subjected to ethical principles. What good is economic production if it does not benefit the people in society? The individual is not a mere pawn of the environment, under the control of natural laws. Rather, man achieves progress by subjugating (controlling) nature. Within certain limits we can have the kind of economic life we wish by taking control, by using the government of all the people to accomplish our goals.

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### Thinker H

Washington Gladden (From *Social Facts and Forces*, 1897)

(1) Industrial conditions today are deplorable. If men only followed the true teachings of Jesus (such as loving your neighbor as yourself) the conditions in our society would be greatly improved.

(2) The present laissez-faire system stresses selfishness and competition which is thoroughly unchristian. A Christian society, which we call ourselves, must be organized on the basis of cooperation rather than competition.

(3) The proponents of laissez-faire say labor is a commodity, like steel, and the wages for workers is to be determined by the impersonal forces of supply and demand. In reality, the laboring man is a human being—he is not to be measured in terms of dollars and cents. The employer must remember in dealing with his employees that he is dealing not with merchandise from which he is to make a profit, but with children of God, whose welfare must be his constant

concern.

(4) Corporations, left to themselves, lower the morality of our country. For example, suppose four businessmen were competing in an industry, and three of the businessmen were honest and one was immoral. If the immoral owner could lower his prices by doing something immoral, then he could undersell his three competitors and take over the industry. The three other businessmen now face a dilemma. If they remain honest, the immoral businessman will eventually run the whole industry. Or the three businessmen can become dishonest to compete effectively with the immoral owner. In this case, four immoral businessmen will run the industry.

(5) Since business moves naturally toward lower standards of morality, we need government regulation to insure equal and fair competition and promote higher standards of morality for our society.

### Thinker I

Lester Frank Ward (From *Glimpses of the Cosmos*, 1913)

(1) Almost everything we enjoy today, from good food to good health, comes from scientific investigation. It is man's intelligence, his ability to plan and order the universe, which separates him from animals. For the government to get involved and order things is just being intelligent.

(2) There is no need for mankind to continue to be crushed by natural laws and play the deadly game of survival of the fittest. People who favor social Darwinism and the laissez-faire doctrine say that the government should not intervene in the natural flow of events—that we should not interfere with natural laws. But these people forget that all

human development is the result of just such interference. The inventor, who the laissez-faire supporters feel is so good and who should be left alone by the government, is a meddler in the natural course of development. If our society never interfered with natural laws our society would fall apart. Government meddlers, like scientific meddlers, help improve society.

(3) The supporters of laissez-faire say that government is inefficient. But it is inefficient because it is not yet based on scientific principles. The general public must be educated in scientific education, especially sociology. Government officials should be trained in the science and art of government. Then we would gather

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## Thinker I

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statistics and plan for sound operation of the national economy. Attractive legislation, such as subsidies to certain economic activities would divert human desires and resources into socially useful channels.

(4) Another weakness of the government is that the rich, through the philosophy of laissez-faire, make the general public view the government as a threat rather than a help to society. The rich industrialists say the state should not interfere in the economy, but they want to keep their own government help, such as tariffs and legalization of trusts (monopolies). The government which

does not protect the weak, is protecting the strong.

(5) If we continue to have the rich, unhindered by any regulations to fulfill their obligations to society, get richer while the poor and powerless continue to get poorer, then we will have revolution. Wealth is a trust of society—no one could pile up wealth without other people to provide services, to provide labor, and to buy the products. Thus, society has a right to regulate what happens to that wealth. In so doing, the government can bring about a more equal distribution of wealth between rich and poor, and thereby avoid revolution.

## Thinker J

Thorstein Veblen (From *The Theory of Business Enterprise*, 1904)

(1) The very rich investors in America are neither useful to society, nor the product of the “survival of the fittest.” They are actually vultures who live off industries by piling up wealth through finance (investing money or banking). For example, Jay Gould made a great deal of money by destroying the Erie Railroad. He made all his profits by selling stocks in the railroads, not by making improvements in it. The Erie Railroad should have been run by engineers, who would have taken pride in running it well.

(2) The industrious people (workers, engineers) make goods by their work and by building upon previous knowledge of

how to make goods. The improvement of industry benefits society. But the business class, the investors, make all the profit by controlling the funds necessary for industry to really help society. Businessmen make no contribution to material progress; they just live off the industrious.

(3) Making money through profits is supposed to be a reward for helping society by making something useful. In our society making money is the end itself. There is no necessary benefit to society.

(4) America should not run according to the laissez-faire doctrine in which we sit back and allow the rich to manipulate the economy to plunder (steal from) the rest of society.

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