

Should We Look to the Government to Solve Most Social Problems?

This is the final article in a four part series which is an extended comment on the moral principles of capitalism, famously addressed in a New York Times editorial by Milton Friedman who claimed that the “moral responsibility of business is to increase its profits.”¹ In this installment, we pick up a thread in Friedman’s editorial where he speaks on the need for some government action. In his article he granted that social responsibilities existed, but that government rather than business should discharge those responsibilities. As we saw in part two of this series, bankruptcy would be the likely result of individual businesses attempting to take on social responsibilities beyond maximizing their profit.

A government, unlike a business, is uniquely positioned to attempt to tackle social problems, since it doesn’t have to worry that the morally proper course of action will lose money. If a government department or agency spends more on solving a social problem than it collects in fees from users it can either tax the people (with their consent, hopefully!) to make up for any losses or impose the costs on individuals through regulation.²

However, just because the government can theoretically solve social problems doesn’t mean it will in practice. Adam Smith famously said:

The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and *which would no-where be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.* (Emphasis added.)³

This quote highlights two major problems with attempting to solve social problems through government. First, you have the knowledge problem where a government official has to know both what the problem *is* and then needs to know how to solve it. Secondly, there is the political action problem where government officials need to avoid the entanglements of special interests who gain a benefit from government action but who do not pay the cost.

Let’s consider these two problems by applying them to the case of unemployment generated by the new self-driving truck example discussed in part two of this series. Part of the problem is easy to figure out, but other parts are much more difficult. Unemployment is a bad thing for the worker who is laid-off. However, lower freight cost for everyone in society is a good thing. The self-driving truck will generate both costs and benefits to society. This is a general principle of all innovations. The invention of the automobile caused massive layoffs in the horse breeding and blacksmithing industry. The automated teller machine reduced the number of bank tellers needed. The automatic elevator caused unemployment among elevator operators. More

¹Milton Friedman, The Social Responsibility of Business Is to Increase Its Profits, New York Times, September 13, 1970, Section SM, Page 17, <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html>.

² For instance, the costs of making buildings ADA compliant – by requiring, for example, entry ramps and handicapped bathrooms – are imposed on building owners (and ultimately others in society) through requirements to comply with mandatory regulations.

³ Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Edwin Cannan edition, 1776, Book IV, Chapter II, pg. 423, Modern Library Edition, 1937.

recently, the invention of the word processing computer destroyed the typewriter industry, and digital cameras ruined the photographic film industry, and so on.

Should the government have intervened in each of these cases to “solve” the resulting unemployment problem? We know historically that this was not necessary. While workers were laid off in one industry, there was a corresponding increase in employment in other industries that either directly or indirectly benefited from the new technology. Total employment has actually increased over the past century even though technology has constantly been destroying jobs in outdated industries. There is no evidence whatsoever that innovations destroy jobs on net.

Is there any reason to believe that the self-driving truck will add as many jobs to the U.S. labor market as it destroys? Both history and economic theory say yes. The mechanism within a free-market capitalist system that ensures this is supply and demand. Every useful new technology lowers the cost of providing some service. While this cost-lowering usually leads to the laying off of workers directly competing with the new technology, the lower cost of providing the service expands the market for the new firms directly, and also expands the markets for firms that make complementary products or services.

For example, when Henry Ford innovated the production line for auto manufacturing he radically reduced the number of workers needed to build a car. However, the resulting lower cost of building cars induced more consumers to buy cars, requiring more workers in the end. With more cars on the roads we needed more mechanics and gas stations, so workers found jobs there. We also developed the desire for pizza delivery, so workers found jobs there. The automobile required better roads than horses needed, so an entire industry of road paving sprang up. All in all, we find that Ford’s labor saving assembly line actually put more workers to work at higher pay than they previously earned before his innovation.

Have you ever seen a picture of the first cell phone, which was the size of a large brick? How many people back in the 1980's predicted that the cell phone would become so ubiquitous and have so many useful apps? Technology surprises even its most ardent proponents. So, a statesman, or government official tasked with "solving" the looming unemployment crisis in trucking doesn't know what all the benefits and costs will be. Is Smith not right when he says that it is a presumptuous folly for government officials to assume that they know what they are doing? If an official is given the power to "fix" the unemployment problem generated by the self-driving truck there is much more likelihood that he or she will damage the economy with a ham-handed response than that the official will make things better.

If the government official doesn't know what he is doing, why can we assume that self-interested business people will do better? Luckily, free-market economics does not rely on businesspeople being geniuses (although some are), nor being angels (none are!). Free markets rely on self-interested individuals interacting with each other voluntarily through property rights and contracts.

If the self-driving truck lowers costs, a self-interested trucking company will voluntarily buy the truck and lay off a worker. If trucking services, through competition, become cheaper, a self-interested entrepreneur will introduce a new delivery service where it didn't exist before and hire self-interested workers as part of its labor force.

The interactions of millions of people who have to bear the consequences of their actions in profit and loss are guided by market forces. As Adam Smith said, "...he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention." The end result, confirmed by both history and economic theory, is a prosperous society where anyone who wants a job and is willing to work will find one. The role of government should be restricted to the handful of issues that only a government can address, while letting market forces solve most issues.