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Was Adam Smith a Classical Liberal? - The Limits of Government in the Wealth of Nations

My purpose here is not to write a definitive analysis of whether Adam Smith was a classical liberal. Such a work would require a more extensive definition of classical liberal, and a more extensive study of the author, than I am willing to provide here. I will simply focus on the Wealth of Nations (1776; hereafter WoN), and mostly omit any references to his other works. My limited purpose is simply to show that 1) one of the defining tenets of classical liberalism was a belief in the importance of setting limits to government action in regards to its citizens' private (economic) lives; and that for this reason, 2) Adam Smith's Wealth of Nations can be considered a liberal tractate.

To do this, I will have to show 1) what is meant by the classical liberal doctrine of limited government; and 2) how does the Wealth of Nations fit in with this framework of analysis.

1. What is classical liberalism? And how does Adam Smith fit in?

There is considerable debate on whether Adam Smith was a (classical) liberal. One of the reasons for this is the oft-noted "difficulty of arriving at any quite definite and widely agreed meaning of liberalism." (Letwin: 80) Saastamoinen even goes as far as to argue: "The term 'liberalism' does not denote a unified ideology in the Western philosophical tradition." (p. 8) This is probably true of the doctrines of "socialism", "conservatism", "Christianity", etc., as well. But he goes too far when he writes: "No particular philosophical theory, conception of man, or political goal, has unified the ways of thinking that, at various times, and in different cultures, have been titled liberalism." (*ibid.*)

I believe there is a central core, a unified doctrine, to be found in liberalism – something that unifies people as diverse, and mutually antagonistic, as Locke, Smith, Toqueville, Hayek, etc.

What are these core principles? Can they be systematized in a rought way? Ironically, Saastamoinen himself helps to point out the (positive) answer, when he argues (pp. 22-26) that the basic principles of liberalism include: 1) natural equality between people; 2) individual liberty (and its corollary, moral individualism); 3) opposition to hierarchical privileges; but also 4) opposition to all further-reaching (usually left-wing) demands for more "substantial" freedom and equality. The first two points could be generalized to mean that liberalism wishes to grant people rights; and the last two points could be generalized to mean that liberalism wishes to limit government.

He, however, for some reason, is allergic to the notion that "the central tenet of liberalism is some doctrine that shows the justifiable limits of government" (p. 242). Liberalism, he writes, is more than just "attempts to reduce politics to moral philosophy." (*ibid.*) Now, while liberalism is surely *more* than a quest for the "justifiable limits of government", it is *at least* that much. This conclusion derives logically from the principles underlined by Saastamoinen himself, i.e. the well-documented and universal opposition to all privileges and all outgrowths of excessive power; these being kept in check by the (free and equal) rights of citizens and the (constitutional) limits of government.

I will argue that liberalism, despite its wide range of differences, encapsulates a (more or less) unified doctrine of limits (to state action). If there is nothing else classical liberal thinkers can agree on, it is that the point of the liberal is to find what the state should do, and what it should *not* do (in regards to its citizens' private lives); how far legislation should go, and where it should stop.

This focus on the *limits of government* sets liberalism apart as a separate doctrine, and this is wherein lies its timeless appeal. (Yes, I wish to claim that such timeless appeal can be found.)

Liberals believe that the government should serve the interests, and rights, of the people (as individuals), rather than the other way around. The motivation for the quest to limit (dangerous) government power was best summarized by James Buchanan, in his book *Limits of Liberty*: "If […] the collectivity is empowered to enforce individual rights, how is it to be preserved from going beyond these limits? […] How can Leviathan be chained?" (p.13). The answer is found in John Stuart Mill's summary in *On Liberty*: "The aim, therefore, of patriots was to set limits to the power which the ruler should be suffered to exercise over the community; and this limitation was what they meant by liberty" (Mill: 4).

In order to chain the Leviathan, the liberal proposes to limit government. Or, to use Locke's terminology from the *Second Treatise*: "Thus the law of nature stands as an eternal rule to all men, legislators as well as others." (Locke: 69) The only question remains: What are the precise limits of power? Here different authors provide different answers. Smith is one of those authors who wanted to provide an answer to the question – how, precisely, to chain and limit the Leviathan.

2. The Limited Government: A Defence of "Life, Liberty and Property"

Limited government, of course, is an ambiguous term. *All* governments have limits, even the most

tyrannical. (Even Hitler was theoretically kept in check by the support of the *Volk.*) And all political philosophies wish to constrain governments in *some* fashion. (Even Soviet Union under Stalin was theoretically ruled by the workers through their representatives.) But I claim that the liberal program is the only political philosophy where the question of devicing mechanisms of limiting effective governmental power is the *core* methodological question, one that is *never* sacrificed in the altar of "higher" objectives. What distinguishes a classical liberal is the emphasis she places on the difficult question of deciding the dividing line between private and public realms, and on the importance of maintaining a healthy private sector as a safeguard against government power.

Friedrich Hayek, in his classic work, *The Constitution of Liberty*, writes that "[t]he recognition of private or several property is [...] an essential condition for the prevention of coercion [because it is] the first step in the delimitation of the private sphere which protects us against coercion." (Hayek: 205) In the liberal society, where private property is secure, to quote Locke, "being all equal and independent, no one ought to harm another in his life, health, liberty and possessions." (Locke: 5)

Another way of looking at the liberal project is to say that liberals want *certainty* (definite pre-defined limits) in government regulation and the enforcement of well-defined property rights, but *uncertainty* (limitlessness) in the resulting distributional pattern of people's private economic fortunes: "Within the writings of Locke and Smith and others in their school, a new ideal of social order appears in the political imagination of the West: an order of law-governed flux. Under this ideal, a central task of government is to provide a secure set of laws protecting property and exchange, laws equally applicable to all and known in advance to be more or less fixed. Within the stable frame of strong but limited government, however, all else is change." (Tomasi: 10)

In all of these definitions, Adam Smith classifies as a liberal: he wants a government efficient but limited in its functions, and a strong private sphere protected against intrusions.

John Tomasi, the author of *Free Market Fairness*, comments on Smith's system's kinship to liberalism: "According to what Smith called 'the system of natural liberty', government activity should be limited to three areas: national defense, the provision of a limited range of public goods, and the exact administration of justice. […] As with Locke, the essence of this emerging 'liberal' program lay in the idea that the purpose of the state is to protect the freedom of citizens equally. The proper way for the state is to accomplish this goal is to limit the range of its own activities. […] The liberal conception of justice requires that the state restrain itself..." (Tomasi: 7)

Donald Winch, however, denies that Smith's political philosophy was merely "a negative

philosophy of checks and balances that is antagonistic to higher and more positive notions of the ends of political life" (Winch: 93). Instead, he sees Smith as committed to a republican civic virtue conception of the state. This, however, is perfectly compatible with the classical liberal doctrine of the state. One cannot talk about John Locke or John Stuart Mill, *either*, without reference to "republican virtue" or public-spiritedness; but that hardly makes them non-liberals! A negative vision of what the government ought not to do goes hand-in-hand with a more positive vision.

To wring our hands, and to refuse to investigate the essence of liberalism, would be to throw the liberal baby out with the nihilistic bath water.

3. The Liberalism of the Wealth of Nations

Let us now take a closer look at the Wealth of Nations, and see how liberal are its doctrines. We have seen that the classical liberal doctrine can be summarized by the defence of a government limited in its functions to the provision of what is needed for the protection of individual rights, the security of persons and property, and the production of a *limited* range of public goods.

This is exactly what Smith delivers. Letwin summarizes: "the proper functions of the government, according to Smith, are to provide national defence, administer justice, maintain certain public works, ensure education of the young, and perhaps subsidize religious instruction." (Letwin: 68)

Aside from providing the foundations of the science of economics, the Wealth of Nations (and not only in Book V) provides a framework for a limited government and a strong private sector largely free from government interference. Smith defends this vision on utilitarian grounds as the best way to advance the common good. Or, to quote Smith himself, in a commercial society, "[e]very individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society." (WoN: 362)

Smith was warning against excessive government power: "[T]he profusion of government must, undoubtedly, have retarded the natural progress of England towards wealth and improvement" (WoN: 283). The main source of Wealth is not government action, but the private action of free individuals: "In the midst of all the exactions of government, this capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal,

continual, and uninterrupted effort to better their own condition. It is this effort, protected by law and allowed by liberty to exert itself in the manner that is most advantageous [...]. England, however, as it has never been blessed with a *very parsimonious government*, so parsimony has at no time been the characteristical virtue of its inhabitants. It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people" (*ibid*: my emphasis). This is typical liberal concern against meddlesome governance.

But he also sees a role for institutions in furthering the commercial society:"Thanks to [the country's] laws and institution, 'the yeomanry of England are rendered as secure, as independent, and as respectable as law can make them' (WoN: 339), and ′'[t]hose laws and customs so favourable to the yeomanry, have perhaps contributed more to the present grandeur of England than all their boasted regulations of commerce taken together.' (WoN: 318)." (quoted by Evensky: 180) This reflects the Whiggean view that liberty and property can only be secure under a reign of good laws.

Who, then, were the Whigs? Both Hayek and Spencer, in their different ways, equated the history of British liberalism with the history of the Whigs. Spencer, for example, writes: "in the [Whig] party there was a desire to resist and decrease the coercive power of the ruler over the subject. [...] Whig principles were exemplified in the Habeas Corpus Act, and in the measure by which judges were made independent of the Crown; […] and, later, they were exemplified in the Bill of rights, framed to secure subjects against monarchical aggressions. These Acts had the same intrinsic nature. The principle of compulsory co-operation throughout social life was weakened by them, and the principle of voluntary co-operation strengthened." (Spencer: unpaginated online edition)

One of the phrases of the Whigs, made famous by (but not invented by) Locke, was "life, liberty and property." As it happens, Smith also uses the phrase, although not in WoN. (Evensky: 78).

Even Winch, who argues against Smith's liberalism, has to say that "[t]here is surely a strong case for describing Smith's politics as a variety of the Whig genus" (p. 73), which leads him to the strange conclusion that "Smith is a Whig but not necessarily a Liberal." (*ibid.*) However, if we recognize that English liberalism is inseparable from the history of the Whigs, and if we define liberalism in terms of the doctrine of a market-oriented economics and strong individual rights, we are led to the un-Winchean conclusion that Smith, after all, was a liberal Whig.

4. Classical Liberalism and the Question of the Welfare State

Let us now look at the claim, or rather implicit assumption, that since liberalism is seen as incompatible with the welfare state, and since Smith favoured public expenditure in those fields

(which is true), he was actually – for the lack of a better word – a kind of social democrat.

But not so fast: just because "[f]or Smith, […] maintaining, perfecting, and protecting the market, and compensating for its negative effects, required the visible hand of government" (Muller: 201) does not make him un-liberal. Very few liberals wish to abolish the state altogether, nor leave poor people behind to die. Tomasi writes: "Smith was convinced that the surest way to improve the condition of the poor over time was by creating the conditions of a flourishing free market. […] It was this idea that led Smith to advocate the *carefully bounded social welfare programs that have so long been part of the classical liberal tradition*." (Tomasi: 9, my emphasis) These social programs include, e.g., education, care of foster children and support for the unfortunate.

Even Friedrich Hayek, one of the authors most responsible for the 20th century revival of interest into classical liberalism, "was not, contrary to what many people imagine, opposed to the welfare state as such. He acknowledged that 'there are common needs that can be satisfied only by collective action' [Hayek: 374] […]. Nor was he opposed in principle to government regulation of working conditions, building codes, and so on. Hayek's criticism of proposals for the welfare state lay not so much with the aims as with the methods of government action. He was suspicious above all of government monopolization of the provision of social, medical, or educational services, since that eliminated the competitive process by which new and possibly better means could be discovered." (Muller: 205) Hayek supported, among other things, public schooling, a guaranteed minimum income, foster family care. He even contemplated "the idea of (mildly) progressive taxation to fund these programs." (Tomasi: 20)

So, classical liberals, like Smith and Hayek, are very much concerned with *both* setting the limits to government methods *and* keeping the mind open for certain (limited) *government interventions.*

Their criteria of goodness include respect for individual liberty, sensitivity to market forces, and following constitutional limits to power. Good aims can be pursued with illiberal means; and vice vesa. Thus a welfare state, in a liberal vein, might be permissible (for both Smith and Hayek, both, in their different ways). But there is no carte blanche to be given to the powers-at-be, and no excuse to be had, in the name of the public good, for the tyrannical ways of social welfare legislators.

Underlying Smith's faith in the market system was the belief that what is productive of the growth of opulence is "[o]rder and good government, and along with them the liberty and security of individuals. […] When [people] are secure of enjoying the fruits of their industry, they naturally

exert it to better their condition." (Evensky: 18) Thus the economic utopia that Smith argued for was one of a mostly free market under a limited government: a "society where things were left to follow their natural course, where there was *perfect liberty*, and where every man was perfectly free both to choose what occupation he thought proper, and to change it as often as he thought proper. Every man's interest would prompt him to seek the advantageous, and to shun the disadvantageous employment." (WoN: 86, my emphasis) The main instrument of prosperity is business.

As Evensky explains, "the liberal plan is the best constitution for the working class because it produces the greatest wealth for the nation and distributes that wealth most justly [… while] the freedom and security it affords each individual encourages the most productive use of resources." (Evensky: 13) Already Locke wrote that, *by* safeguarding property, the force of the state is "to be directed to no other end but the peace, safety and public good of the people" (Locke: 66).

Smith is not an outlier; he is a white swan. As Hayek explains about his own position: "Only the coercive measures of government need be strictly limited. [However,] there is undeniably a wide field for non-coercive activities of government and there is a clear need for financing them by taxation. Indeed, no government in modern times has ever confined itself to the "individualist minimum" which has occasionally been described/a nor has such confinement of governmental activity been advocated by the 'orthodox' classical economists." (Hayek: 374) If advocating limited public goods would make a person a social democrat, then Hayek, too, is a social democrat. But this, of course, would be missing the point. Smith and Hayek are best described as liberals because they aim to pursue state welfare measures with liberal, market-oriented means. The liberal solution can "rescue some of the more modest and legitimate aims [of social reformers] from the discredit which over-ambitious attempts may well bring to all actions of the welfare state." (Hayek: 379)

5. How Does Adam Smith Tackle Concrete Public Policy Issues?

Let us now look at a few different spheres of the economy dealt with in the Wealth of Nations, and their relationship to liberalism. (Their point is to illustrate the larger themes of the essay.)

5a. Smith on Justice and Law

Liberty cannot exist without a stable framework of laws, institutions and justice. "That security which the laws in Great Britain give to every man that he shall enjoy the fruits of his own labour, is alone sufficient to make any country flourish, notwithstanding these and twenty other absurd

regulations of commerce" (WoN: 435) The rules of society must be conducive to good government and the individual liberty required of a commercial society. "Liberty – and security, which in Smith's mind is the Siamese twin of this kind of liberty – are the fruits of 'good government', government that, whatever collective goals it may pursue, proceeds according to established constitutional rules." (Letwin: 77)

With regards to justice, "[a]s usual, Smith takes a manifestly liberal line on the matter of economic policy. He argues forcibly that those who immediately benefit from the service performed by judges, namely litigants, should pay for the service." (Letwin: 71) Judges should be compensated according to the labour they have done. "Adjudication will thereby become efficient: 'Public services are never better peformed than when their reward comes only in consequence of their being performed, and is proportioned to the diligence employed in performing them'" (WoN: 587). This is as close to anarchism as Smith gets, since "privatiz[ing] the courts" (Letwin: 71) is a favourite hobbyhorse – the shining Holy Grail or the elusive Moby Dick – of the anarcho-capitalists.

However, it is clear that, unlike the anarchists, Smith does not favour privatizing the courts. He just wants to create, or facilitate, market mechanisms (*within* the public sector) to make the operation of justice (and the public sector *in general*) more efficient. He favours the core operations of the state – defence and justice – to be, not privatized, but monetized, marketized and liberalized.

5b. Smith on Mercantile Special Interests

Governments often grant monopoly privileges to industries and companies deemed in need of special protection, such as nascent industries, or colonial companies, with mixed results. The great fault of mercantilism, according to Smith, was that it usurped the noble aim of the government for facilitating commerce (that served the common good), and turned it into a monopoly privilege (that served the private interest of merchants). Evensky summarizes the economic argument: "Insulated from [competition] by monopoly, a [state-protected] company can survive for a while, but even this does not allow it to succeed over the long term. The very monopoly that makes its existence possible, by eliminating the discipline of competition, makes inefficiences and decline inevitable." (Evensky, 225) Thus government gets corrupted. Smith was one of the first to see this happen.

Today, with the rise of mega-lobbying, we have a much better understanding of the mechanisms of the collusion between special interest and government than Smith did, but the basic insights against mercantilism remain sound even in the new context. We only need to extend his analysis to the

behaviour of corporations, labour unions and other contemporary special interest groups.

”Smith notes [...] that although there are, on occasion, good reasons to give particular companies special powers for a limited period of time (e.g., protection for nascent industries), invariably and unfortunately these advantages have been protected and maintained and even expanded at the encouragement of the private interests that have enjoyed the benefits of the advantages. This has, all too often, led to monopoly advantages, with very perverse consequences.” (Evensky: 233)

Smith issues a dire warning against government hijacked by private interests:“The interest of the dealers [...] in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be […]. The proposal of any new law or regulation of commerce which comes from this order ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention.” (WoN: 214)

With government, private and public interests differ. This, too, is a quintessentially liberal concern: the hijacking of the public good by private interest, distorting law (common to all) into an instrument of arbitrary tyranny against, or the preferential enrichment, of the few (privileged).

5c. Smith on Taxation

In taxation, Smith called for restraining and streamlining the power of taxation beyond the necessity of providing enough to fund all the essential functions of government. Taxation can cause unreasonable strain on individual liberty, and on people's private economy, in a number of ways.

The government, limited in its levying powers, as in all other respects, must strive to maximize liberty and opulence for all, for the sake of efficiency as well as justice. Taxation (like any government policy) should exhibit **"**simplicity, certainty, and precision**”** (WoN: 728).

He is wary of the danger to liberty posed by excessive, arbitrary or tyrannical taxation: "To subject every private family to the odious visits and examination of the tax-gatherers [...] would be altogether inconsistent with liberty." (WoN: 775)

Always a champion of the working man, ”Smith rejects taxes on wages” (Evensky: 232) as foolish; he prefers, instead, luxury taxes. Smith vacillates on whether all taxation is a violation of liberty; or whether only oppressive and arbitrary taxation is such. (Letwin: 78) Such vacillation makes him a pragmatist, perhaps even a little self-contradictory. But it certainly makes him a liberal.

5d. Smith on Public Works and Schooling

In his dealing of public works and education, Smith emphasizes familiar liberal principles, that, wherever possible, one should favour a market-based or market-friendly solution; and one should never grant arbitrary or unchecked power to administrators; and one should avoid state monopolies.

With regards to public works, “these should be paid for by their immediate users […] so far as possible in proportion to the costs generated by their use. Here again [Smith] applies the free-market principle that every person should bear the full cost, no less and no more, of consuming what he chooses. In its broader political implication, this corresponds to the liberal intention to arrange matters, as far as possible, so that each individual bears the consequences of his own action, individual responsibility being the foundation of responsible individualism.” (Letwin: 73)

In addition to general public works, ”it is essential, for both the private and public good, that government provide education to those perversely affected by” the division of labour in a commercial society. (Evensky: 226) ”The man whose whole life is spent in performing a few simple operations […] generally becomes as stupid and ignorant as it is possible for a human creature to become.[... And] in every improved and civilized society this is the state into which the labouring poor, that is, the greatest body of the people, must necessarily fall, unless government takes some pains to prevent it.” (WoN: 637-638) There is no question that, for Smith, the government *should* take pains to prevent this calamity. More specifically, the government should subsidize the education of the labouring poor (”that is, the greatest body of the people” *(ibid.))*. There is, however, no need for the government to provide for those who can afford to educate their own families. And the student should also pay a portion of the salary of the teacher, to make the transaction more market-oriented and efficient. Salary should not be independent of performance: ”In the university of Oxford, the greater part of the public professors have, for these many years, given up altogether even the pretense of teaching.” (WoN: 622) Thus, although Smith was in favour of publically funded education, there are limits to how far public monopolization should be taken, because the erosion of market forces carries considerable risks to public and private welfare.

So, contrary to the Marxists and the libertarians, from the classical liberal point of view, and from Smith's point of view, designing an optimal system of public goods provision (based on democratic legislature) it is not a black-and-white question of ”public vs. private” but ”public to what extent? private to what extent?” There are better and worse ways of implementing public policy within liberal confines. This is an essential debate *within* the liberal quest for the limits of government.

6. Conclusions: Smith's liberalism for the 21st century

We have seen that Adam Smith argued both for setting up a limited liberal framework of government, and also of providing, within that framework, certain public goods and regulations. We have also seen that these two aims are not contradictory, but perfectly mutually intelligible in the classical liberal doctrine, from Locke and Smith to Hayek and beyond.

Why is it important to understand what the Smithean liberal program was really about? Aren't the needs of a post-industrial, globalized welfare society different from those of 18th Century Britain?

Certainly Smith's Britain was a different beast from today. But while the particular problems and remedies in WoN have lost their relevance, the main insights about the commercial society, and the dangers to individual liberty that it entails, have not. I believe, with E.F. Paul, that the rediscovery of the limited government as a methodological, philosophical and political programme “provides a much needed antidote to the twentieth century fascination with the all encompassing, over-weaning, rights-violating, bureaucratic state.” (Paul: 276)

Without sufficient limits to the powers of government, the state is subject to the ever-present danger of bureaucratic arbitrariness, the tyranny of cumbersome laws, and the backroom deals of special interest politics. A commercial society requires a framework of institutions, laws and regulations to produce the most opulence; but these government provisions, in turn, must be sensitive to the needs of the commercial society – one of which is to limit the powers of government.

There is, of course, the more stringent (19th Century) liberal doctrine, according to which “the task of the state consists solely and exclusively in guaranteeing the protection of life, health, liberty, and private property against violent attack. Everything that goes beyond this is an evil.” (Mises: 52) This tradition culminates in libertarianism and anarcho-capitalism. That, however, is another tradition quite far from Smith. The *minimal* state is not the only possible version of *limited* state.

Thus, if we can unearth from Smith a program of a limited government, we can, perhaps, find a way for the state to provide for the basic welfare needs of its citizens, without succumbing to the temptations of the bureaucratic, tyrannical and over-expansive – not to mention over-expensive – dangers inherent in the Leviathan. The goal ought to be a liberal utopia where, as Smith put it, "[e]very 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 where] [t]he sovereign is completely discharged from […] the duty of superintending the industry of private people[.]" (WoN: 560) Such a utopia, with its unique appeal, is worth recapturing from the ultra-libertarians and the social democrats alike.

It remains an important task to "rescue" Smith, and classical liberalism, from the claws of the anti-statist conservatives and the hardcore libertarians, who conflate their own positions with those of Smith. Liberalism is not the same as libertarianism: "Strict libertarianism is biologically averse to [any ideals social justice]. But classical liberalism, with its longer and more explicit history of concern for the working poor, is congenitally open-minded about distributive questions." (Tomasi: 167)

To counter the laissez-faire interpretations of Smith, some people, including Kari Saastamoinen, have wished to provide what I would call a "social democratic" reading of Smith. This is all fine and good, and his synopsis is spot on: "Even though Smith wanted to break down the mercantile system that favoured big enterprises, he did not propose limiting the actions of the state *exclusively* to the maintenance of law and order, and the upkeep of the military. The state had also the role to provide such services whose supply was necessary for the sake of the public good, but which individual citizens were not economically incentivized to provide. *This range of activities, for Smith, was by no means insignificant.* It included, for example, the responsibility of the government to take care of the mental virility of the citizens and their capacity for a decent life." (p. 52, emphasis added)

However, before we conclude that Smith was a *limitless* social democrat, we should remember that the acceptance of the provision of public goods, far from being a non- or anti-liberal invention, has been an important part of the classical liberal doctrine from its very beginning.

Nor should we forget the important differences between classical liberalism and some of the more unliberal defenders of the contemporary welfare state. What makes Smith a *liberal* defender of certain civic republican and welfare measures is the fact that for him, the government, in all its

(ethically limited and carefully bounded) public undertakings, should, wherever possible, 1) utilize the private sector, with its market forces and price mechanism; 2) make sure that bureaucracy doesn't impose bad incentives or burdensome regulations on people; and 3) avoid granting exclusive privileges to any special interest group(s). These three principles, I would argue, are often absent in attempts to provide social welfare to citizens. The lesson we can learn from Smith is the following: the government, while serving public or civic ends (such as welfare measures), should not stifle the market, nor be allergic to utilizing private incentives, and private responsibility, for public good.

We can now say that Smith was, indeed, a liberal. He not only laid the economic foundations of a prosperous commercial society, but also outlined the framework of public policy suitable for it: 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." (WoN: 560)

Smithean public policy provides the liberal and market means to achieve civic and social ends. Thus, we can learn from Smith, that any public project – such as education or road-building - can benefit from being subjected to private incentives and market-oriented policies, even while being firmly funded by the government to keep it going. This is what it means to fruitfully limit the government.

There remain, of course, innumerable unsettled questions about the precise contours of the just limits of state power. Smith answers a few and leaves others unsolved (e.g. the urgent need for environmental regulation). But the only way to make advances, here, is to keep in mind that a government without limits (no matter how noble its aims) is a government without hope.

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