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The Pope, Poverty and Adam Smith

Is government a maker or taker...what would Adam say?

In a recent Sunday opinion piece one of our local columnists praised Pope Francis and his noble goals of forgiveness, tolerance and reducing world poverty, but lamented his "sweeping and oversimplified condemnations of profits and markets", accusing him of "left-leaning pronouncements ... worrisome to those of us who think free markets a big part of what's needed to win the struggle against poverty and hunger around the world." And, he went on, "as immortally defined by Adam Smith through his 'invisible hand' metaphor, self-interest will inspire most of us to serve the needs of others (as a means to making a profit...) more energetically than generous feelings will."

Within a week a spokesman for the area Catholic Conference wrote a counterpoint stating that by "shoehorning a few of the media's favorite Francis sound-bites into the usual left-right strait-jacket," Francis and the entire rich tradition of Catholic social commentary on which Francis' statements build was misrepresented, including John Paul II's statement that "the free market is the most efficient instrument for utilizing resources efficiently, and effectively responding to needs." This tradition, and Francis himself, said the spokesman, recognize that market mechanisms have lifted people out of poverty and greatly contributed to the global increase in prosperity and standards of living. Similar heated exchanges are playing out across the country, ignited by Francis' remarkable if controversial new encyclical, *On Care of our Common Home.*

Now, like our columnist I also admire Pope Francis and his goals. And being a strong advocate of sound markets, I share our columnist's admiration for market economies. But I lament that our columnist's own 'sweeping and oversimplified' claims regarding the market – and he is far from alone – not only may misrepresent Francis and Catholic theology, they surely misrepresent Adam Smith, the moral philosopher who became the father of market economics.

It's understandable. Adam Smith has been so badly misrepresented by certain economists (the Chicago school) and popular soothsayers that we ought remind ourselves of both his aims and his proposals. Just for starters, it is Gordon Gecko and Ayn Rand who said "greed is good", not Adam Smith. Adam Smith said just the opposite: that, like rust in a machine, greed would destroy sound markets.

The aims of this moral philosopher started with the following observations:

> -- "All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind."
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> -- "No society can surely be flourishing and happy of which by far the greater part of the numbers are poor and miserable."
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> -- "A nation is not made wealthy by the childish accumulation of shiny metals, but is enriched by the economic prosperity of its people."

In other words, like Francis, Smith was wrestling with the problem of poverty and inequality. But unlike religion – which for centuries accepted poverty and inequality as part of the natural order of things, presumably divinely ordained, and sought to alleviate the consequent suffering with compassion and charity (treating symptom rather than cause) – Smith was perhaps the first to propose we ought try to reduce if not eliminate poverty and inequality themselves. And he offered concrete means to do so. He proceeded to invent the field of political economy, of which sound markets were one part (never thought by Smith as sufficient alone) to accomplish this purpose: namely, to overthrow the inequality of wealth monopolized by the privileged and spread it more equitably (not equally, Smith was no socialist) to all members of society. Here he defines political economy and its aims:

> -- "Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services."

Thus the two means proposed by Smith were sound markets and "the public services": sound markets for the production of private goods, and public services for the production of public goods. Let us remind ourselves of the distinction: private goods are those we can purchase by ourselves individually, like computers, carpentry and medical care; public goods are those we cannot, and must purchase collectively as a society, such as defense, sewer systems, and safety nets. Smith stated neither the market nor the public services alone is enough, both are necessary to create wealth and curb poverty and inequality.

One seldom hears of the wealth produced by the public services. Indeed, according to one shrill, incessant school of thought, the producer of the public services, government, is a parasite that takes from 'makers' and gives to 'takers'. This is quite false. Public goods produced or bought by government are at least as great a source of wealth-creation as private goods made by the private sector. But the return on wealth created by private goods returns to its producers financed by customer purchases, whereas the return on wealth created by public goods does not, but rather returns to the prosperity of society as a whole. So public goods must be financed by other means: taxes.

Note, this difference can create a misleading illusion. Because people see successful private producers wax wealthy by capturing the return on the wealth they produce, but the public producer, government, does not wax wealthy and must continually ask for taxes, the shortsighted miss that the public sector creates any wealth at all, let alone at least as much as the private sector. This mistaken notion, abetted by simplistic, unceasing special interest propaganda, has led to dangerously shortsighted public policy and understanding.

As a quick example of how the prosperity and wellbeing produced by good public services accrue to society as a whole, consider the Interstate highway system. When built, travel time and expense fell drastically for citizens and business alike, traffic accidents and fatalities plummeted, personal mobility rose, new bedroom communities with affordable housing opened up, the travel and transportation industries boomed, the land value at intersections soared as gas stations, hotels, motels, restaurants, convention centers, shipping hubs and tourist attractions rushed in to take advantage of the new business opportunity, a goldmine in new jobs and profits created entirely by the public sector. Interestingly, the initial investment was justified as a defense expenditure: mobile long-range missile carriers could elude a Soviet attack protecting our retaliatory power, a defense need soon obviated by long-range missiles in land silos and submarines. But superfluous missile carriers aside, there was never need to justify the Interstate system on the basis of defense, it would have been amply justified simply as a far-sighted public investment with profound continuing returns to the economy and public wellbeing, a public investment the nation would have been foolish not to make.

Now observe that, with the exception of a few pre-existing state toll roads incorporated into the system, scarcely a cent – none from its flourishing intersections – of all this great new and continuing wealth and wellbeing comes back directly to its public producer, government, and so the Interstate system must be supported by taxes. (False economy now allowing this enormous wealth-producing public service to erode with inadequate maintenance is worrisome.) But suppose instead, when it built the Interstates, that along with the roadway the government had also bought up the land around the intersections and leased it to the businesses flocking there; that lease revenue – simply capturing a fair share of the wealth it created – would have sustained superb maintenance of the Interstate system in perpetuity. However, as I will shortly discuss, on most good public investments such direct return is seldom feasible nor desirable (and even when it is, is not the way Americans usually prefer things: government is to operate on taxes, not make money like the private sector). I simply bring up the Interstate system as one easily understood example of the wealth-producing power of smart public investments when beyond the capacity or interest of our private sector.

I will return to wealth-creation by the public services shortly, but let us begin with the first part of Smith's proposal, the sound market. Though (as he says) not sufficient in itself, the sound market turns out when done right to be the finest engine for beneficial wealth creation ever discovered. I prefer the term 'sound market' to 'free market' for the very good reason that free market has become distorted by special interests to imply Smith meant laissez faire: i.e., no government interference or regulation. Smith would be aghast at the idea markets should be left unregulated:

> -- "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."
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> -- "The interest of [businessmen] is always in some respects different from, and even opposite to, that of the public ... The proposal of any new law or regulation of commerce which comes from this order ... ought never to be adopted, till after having been long and carefully examined ... with the most suspicious attention. It comes from an order of men ... who have generally an interest to deceive and even oppress the public."
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> -- "Consumption is the sole end of all production; and the interest of the producer ought be attended to, only so far as it may be necessary for promoting that of the consumer."

Our local columnist accused Francis of left-leaning because Francis decried "a crude and naive trust in the goodness of those wielding economic power." But as we see above, Smith was even more blunt! Shall we call the inventor of the sound market and market capitalism left-leaning?

Remember, Smith clearly regarded business as vital to society's wellbeing, and his observations above are generalities, not about individuals, lest anyone take umbrage. Many businesspeople would not intentionally deceive or exploit the public, but, as Smith observed, others do not scruple against doing so except in matter of degree. Hence enough business-originated proposals contain actions not necessarily in the public interest – not all but enough – that Smith strongly advised each be examined carefully on the merits.

By 'sound market' is meant one so structured that the incentives of the market reward the goals that society desires of that market. An 'unsound market' is one where the incentives of the market are counter to society's goals. Thus Smith's famous 'invisible hand' is, in fact, really quite visible, and it turns out very much a two-edge sword. That it is always beneficial is a false article of faith misrepresenting economic science and Adam Smith. Under certain well-known conditions markets are sound and beneficial; lacking these conditions they can be highly destructive – have a dark side, as our columnist acknowledged – preventable if the proper conditions are well maintained.

So what is the invisible hand? It is simply a metaphor for the incentives on producers and consumers created by the structure of a market. Arising from the structural arrangements of the market, these incentives are beyond the power of individual producers and consumers to alter. No matter their motives, whether altruistic or selfish, producers must follow these incentives to prosper. Those who oppose them suffer and fail.

One can analyze a market to determine whether its incentives are sound or unsound. An example of a sound market is computers, where the incentives are if you can't make a better computer for less, you're out of business; and, lo, computers keep getting better for less. An example of a highly unsound market is medical care, which greatly rewards costliness independent of quality; the costly provider prospers and the one who gets better health results for less suffers (indeed if he is as efficient as we know high quality providers can be, he will soon be out of business); and, lo, the nation is being eaten out of house and home by ever more costly superfluous medical care with little or negative effect on health, far beyond what other nations with better health results spend.

Too often people don't think about incentives when there are problems in markets. For example, providers are accused of greed because of the excessive costs of health care. But no one says computers are better for less because of the altruism of computer company executives. It is the incentives of the sound market that drive them, both the virtuous and the unvirtuous (and there are plenty of both, as in all large groups of humans). Nor can we blame providers, as is all too popular (and wrong), for the runaway costs of the unsound medical market. Again it is the incentives. In this unsound market they perversely punish the virtuous and unvirtuous alike for efficiency. Get the incentives right and markets will home on the desired goals, get them wrong and markets will perform badly.

Markets are thus not an end in themselves, but rather a means to an end: the goals that society desires. Good policy should design markets accordingly. There are a set of several structural conditions which make markets sound (you may know them if you have suffered through Econ 101; e.g. one better-known condition is 'no monopolies'). These conditions do not arise spontaneously, they must be put in place and maintained by thoughtful public policy and regulation...unsound markets do not self-correct! The problem with unregulated ("free") markets is that they rapidly become unsound: left to themselves free of regulation, as Smith notes above, producers erode the necessary conditions. It is the duty of government, as Smith indicates, to correct and maintain sound markets, by ensuring the necessary conditions are put in place and not allowed to erode. Establishing and maintaining sound markets by proper legislation and regulation is among the most important, and wealth-producing, of the public services.

Note importantly, it is not private producers or the profit motive (and certainly not greed) that make markets sound and better for less. It is this set of sound market conditions. Private for-profit producers are profit-maximizers, and when not in sound markets, the profit motive can lead to undesirable results. For example, in unsound markets, for-profit producers are not particularly efficient (think e.g. military suppliers). And if profits come from costliness independent of quality, as in the present medical care market, for-profit producers will maximize their inefficiency and costliness, extracting wealth from the rest of us, while true wealth creation – health results per dollar – falls.

Thus we see it possible to amass wealth in two ways: by creating it, or by taking it from others: not all wealth amassers are wealth creators. Place producers in a sturdily maintained sound market and they will continually produce better for less, whether they are private or public, profit or non-profit, selfish or altruistic. Those doing the right thing will prosper, those doing the wrong thing will suffer and fail, no matter how good or bad the motives of either. In other words, Smith's sound market with proper incentives is a much larger and more powerful concept than people realize, applying not just to private for-profit producers but to any producers, private or public, profit or non-profit. Public policy should stop overlooking that and take advantage of it

Because monopolies, both public and private alike, ultimately serve themselves rather than the public, and because properly structured and regulated sound markets reward desired societal goals independent of the motives, noble or base, of producers, it is usually far more efficient and productive that, wherever possible, government set up sound markets of competing producers, *whether private or public*, rather than try to be the sole producer itself.

Despite Smith's admonitions, all too often public policy overlooks bad incentives. This seems to be a regular error of both conservatives and liberals. Instead of restructuring the market to replace unsound incentives with sound incentives as recommended above, conservative policy, for example, tends to trust badly performing unsound "free markets" to correct themselves (they do not). On the other hand, current liberal policy tries to overpower them with 'command regulation': i.e., regulatory directives commanding producers to act against the unsound incentives. Unfortunately if producers comply with such directives, they will suffer, even fail, due the unsound incentives, so they must compromise, evade or tokenize compliance, and the command regulation fails – only to be replaced with more and stronger command regulation that also fails. This has been, for example, the history of health care policy for the past five decades: In five decades our *private health care market* has failed to correct itself and scarce made a dent in the medical care cost rise. Similarly, in five decades of command regulation in our "*single payer*" public programs – Medicare and Medicaid – these programs have piled up ever more and costly rules, red tape and paralysis, yet also have made scarcely a dent in the cost rise. And so, with its strong, perverse cost-raising incentives still untamed, health care has continued to eat up ever more staggering amounts of GNP with no commensurate gain in health, and little end in sight. This is a huge loss of wealth needed for things that would create true wealth (...not to mention improve health far more than would more medical care). Thus inadequate public services to create and maintain a sound health care market have cost the nation enormous wellbeing and prosperity.

Now let us look beyond sound market maintenance to other public services that produce great wealth in return for our taxes. Consider three examples. First, there is hardly a higher return on public investment than public health. History dramatically displays the enormous drop in death and disease rates due the advent of the public health services. To estimate the wealth produced, simply imagine how much each person would pay private doctors if they knew they would otherwise die next day of diphtheria or polluted water, or contract polio or food poisoning. But this is only the beginning. In addition to this direct increase in our wellbeing of greater longevity and healthier life, there is also the increase in societal prosperity of everybody due the well-studied economic benefits of having a longer-lived healthier workforce. And all those sick care expenditure avoided by good public health can now be spent on other things to increase our individual and societal wellbeing and prosperity. But, since people won't pay for illness that doesn't happen to them (or for anything else averted by good preventive public services) and since we all benefit, we declare public health a public good and buy it collectively through taxes.

Second, consider public education. The immense gain in societal wealth due productivity increase, not to mention individual wellbeing, created by an educated workforce and citizenry is well-known. But employers can't buy an educated workforce; they have no idea who will grow up to work for them. Since we all benefit from this increase in our prosperity, we make this a public good we buy for all our young collectively through taxes. Thus our public education system, its shortcomings notwithstanding, creates enormous public capital – educated citizens and workers – made freely available to the entire private and public economy. (Properly redesigned with improved incentives for performance, the public education system would likely produce even greater public capital.)

Third, consider the wealth returned from basic research financed by government. It is almost immeasurable. Why is the United States so far out in front of the world technologically? Because we have invested more in basic research than anyone else. (Indeed, recent cutbacks are worrisome.) Virtually the entire economy, private and public, now runs on the continuing fruits of basic research. Basic research is different than applied research. Applied research is what the private sector does so well: as soon as basic scientific facts and principles are well enough known to foresee a viable commercial product, the private sector will eagerly invest in applied research to bring it to market. On the other hand, basic research in all the hard and soft sciences is what continually reveals all these hitherto unknown fundamental facts and principles on which applied research feeds. It may take years to discover them, and the fruits are totally uncertain and unknowable in advance. So it is unreasonable to ask private investors to finance basic research; not only are they too narrowly specialized and interested, they will long be bankrupt before there is any promise of return, nor will they have any idea in what amount and what area it will occur. What *is* knowable and decidedly certain is how large the return on investment for the nation has been from steady basic research to discover more and more of these basic facts and principles. It took decades of effort and expense, for example, to reveal the principles of solid-state electronics or of Einstein's general relativity – initially we knew nothing even of their existence – yet every firm manufacturing e.g. electronic chips (all requiring basic solid-state principles) or using satellites (all requiring basic relativistic corrections) uses them. Basic research results are a vast, free public capital created by the public services. If firms had to pay royalties for using these basic research findings, we would not lack for extraordinarily generous funding for basic research. But it is impractical to ask royalties on principles which often take years of further basic and applied research to find practical application, long past usual patent expiration dates, and now continually combined in impossible profusion by all producers. Hence since our individual wellbeing and societal prosperity depend so strongly on basic research, we wisely see it is a public good and buy it collectively with taxes.

It is astonishing how many people, even many in Congress who should know better, fail to see the wealth created by basic research, and the disaster to the nation's prosperity that will follow from insufficient funding. We often hear mantras that until a commercial product can be made and sold, no wealth has been created. This is akin to constructing a bridge and claiming only the pavers have created wealth, since no cars can use the bridge before then. Until basic principles are discovered and fleshed out, no practical applications can be conceived let alone invented. For example, the great British prime minister Gladstone, seeing a demonstration of magnetic induction by its discoverer, the great scientist Faraday, remarked dismissively "...but after all, professor, what practical use is it?" To which Faraday allegedly replied, "Why minister, there is every probability that you will soon be able to tax it." Not even Faraday could have imagined the economic engine of wellbeing and prosperity this hitherto completely unknown phenomenon has brought about today; virtually all the world's electricity is generated by magnetic induction. If we each had to put a penny in the basic research fund every time we flipped a light switch, basic research would not lack for adequate funding. Similarly Einstein's discovery of general relativity in 1917 was greeted dismissively by the short-sighted as a useless curiosity. Because they could not imagine any immediate practical applications, they assumed there were none. The wise knew better. Today our space travel and communications, with all the wealth and well-being that flow from them, are utterly dependent on applications of Einstein's theory.

I share with conservatives concern to avoid “takers” living off “makers”. We should aggressively avoid, for example, any sort of perverse welfare system where able-bodied citizens can live off the dole. But equally, there should be just as great concern that any able-bodied business not be allowed to become a private sector “taker”, living off the public services “maker”, by shirking its fair share of taxes for the public goods it so freely consumes – quite as much free-loading at the public trough as any welfare cheat. Tax dodges are thus a perverse public dole for business, likely well more costly to the taxpayer than any welfare dole. Both are to be aggressively avoided.

Thus profit is not, as our local columnist oversimplified, “the price of capital”. Profit is the price of capital for private goods and services. The price of capital for public goods and services is taxes. Done wisely and well, the public services are a profound investment by far-sighted legislators, with great return to the wellbeing and prosperity of both individuals and society. Done poorly or inadequately, they can destroy individual and societal wellbeing and prosperity.

I would now like to turn to three areas – finance, health care, and poverty reduction – where I believe, if done well, a further healthy investment and strengthening of the public services would produce great gains, the biggest bang for our tax dollar far exceeding the cost, to the nation’s prosperity and wellbeing. So far these areas have been handled with inadequate or poorly designed public services, and it has cost the nation dearly in both wealth and wellbeing. There are certainly far more good things to do for the nation’s wellbeing than it can afford. Therefore one would hope both liberals and conservatives might unite on those public investments that are not only right but smart, those that not only notably improve the nation’s wellbeing but at the same time return a significant and continuing profit to its economy.

As reducing poverty was a high ideal of both Adam Smith and now Francis, let me begin and spend a little extra time on it, in particular on the huge costly problem of structural poverty in this country. Sound markets are vital but inadequate alone to address this problem. Structural poverty differs from ordinary poverty. The ordinary poor have the same work ethic and values as the middle class but for any variety of reasons have little income or money; given opportunity they can rise. Unlike ordinary poverty, structural poverty involves large, chronically low-income areas – ghettos of poverty – with excessive concentrations of high unemployment, chaotic and often violent home life, poor or absent role models, unskilled parenting, high illness and medical problems, high addiction, gang violence, crime, insecurity, and discrimination. This toxic brew is found strongly and negatively correlated with adequate human development, let alone acquiring marketable social, intellectual and emotional skills, not to mention technical skills. These areas, because of their low-skilled workers, impoverished consumers and instability, seldom attract employers offering decent well-paying jobs, and the low-skill jobs further away that residents may qualify for often pay so poorly they scarcely cover the hours and expense of the inadequate transportation to get there and back; hence unemployment remains high. People commonly become trapped in these areas because they were raised in them or have too little money or social support to relocate. To most, the ways of the middle class are a foreign country of which they have little knowledge or experience, nor are middle class ways very useful trying to survive in these areas. The all-too-few who manage to escape are rightfully applauded for their courage and tenacity, but their success is notable for its rarity. Social mobility in America, once our pride, has fallen below Canada and Europe.

Too many middle-class adults fault the structural poor for their low skills and undisciplined work habits. They blame their poor genes and weak character, implying their woes are ineluctable and irremediable, thereby excusing themselves to ignore all this human misery. Nobles used to similarly fault peasants, British upper classes to fault the criminal class they exported to Australia, imperial powers to fault subject native populations, and masters to fault slaves. But the structural poor appear natively to have neither much better nor worse potential talent than any other large group of humans, the *intra*-group differences in all large groups dwarfing the *inter*-group differences. The distinction, sadly, is that an excessive proportion are ill-developed, like so many peasants and slaves before them, so this substantial body of talent and potential goes unrealized, wasted.

Likewise, too many of the middle class righteously expect the structural poor to grow up and act like themselves, oblivious of the powerful human development system that is their own privileged upbringing. They seem blind that they themselves have had competent successful parents, neighbors and communities providing role models and mentors and networking sources, and have seen and experienced the value of investing time and effort in delayed rewards – all of which are far more valuable to their future success than simply money, which they also have. All of this they take for granted rather than with constant gratitude. They have little clue as to the chaotic, insecure, often violent, upbringing and living conditions of the structural poor, and the low self-esteem, defensiveness, and the poor experience and low confidence with delayed rewards that these conditions engender. By the time they reach employable age, the structural poor are largely unschooled and unaware of the social, emotional, cultural and learning skills necessary to hold a job, skills that are second nature to the middle class. Beyond low skills many have attitude and reliability problems that can antagonize customers, co-workers and managers. None of this exonerates the structural poor from personal responsibility for the consequences of their behavior or poor choices. But remember, the middle class, too, make their fair share of poor choices and are properly held accountable. However, their resources and social support systems buffer and soften the consequences, making them far less disastrous and permanent, while little shields the structural poor from severe, long-term consequences. The middle class and the structural poor are playing on an uneven game field, one could even say they are in altogether different games.

Thus markets, by themselves, cannot serve or lift the structural poor because the mental, emotional and cultural skills to advance in markets are unfortunately foreign to them – skills that require considerable time, effort and mentoring to develop, skills that they scarcely know exist let alone how to acquire. Just as markets do not skew good employment toward areas of poverty, they do not skew products toward them. Markets skew products toward the distribution of income, toward consumers with incomes sufficient to buy them: they develop far more and costly goods and services for those with high income than low. The poor benefit, often enormously, but only when market efficiencies bring some of these products within their reach. Thus markets will not, cannot, offer the kind of development services critically requisite to help the structural poor acquire the needed skills because such services are unprofitable. They are too expensive, far more expensive than the structural poor could ever afford ... even if they had the knowledge to appreciate their value. (Advertising of expensive goods and services, which is how many consumers learn their value, is not aimed at the poor.)

Since markets are inadequate alone, if the structural poor are to rise it is the public services which must help them acquire the needed skills. Only then can the sound market work its magic. How? Do as we have done so successfully before: design public services to solve the problem <u>not by hand-outs and charity but by proper investment in human development</u>. If by smart, efficient investment in their development, the public services can help the structural poor become competent citizens and workers, as capable as the rest of the population to rise to their full potential, then there is great opportunity here.

In other words, too few realize that our most valuable, wealth-creating public services are human development services. The public health services are in fact a continuing public investment in the health of our workforce, greatly increasing their productivity not just their wellbeing. The public school system is in fact a continuing public investment in development of our young, many of whose families could never afford such education privately. It taps a huge source of skilled workers and entrepreneurs untouched before public education, and increases individual and societal prosperity many times beyond its cost. It is an immense 'making', not a 'taking'. (And recall, many of the prosperous at the time argued trying to educate the children of the masses would be a waste of tax money: 'those people will never amount to anything'. They thought education a private good, to be privately purchased only by those who could afford it. When society wisely made it a public good, the prosperity and well-being of the nation boomed.) Or realize that the GI bill, first thought of as a thank-you gift to veterans, turned out to be another incredible public investment in human development. It created prosperity far beyond its cost, as we brought this hitherto untapped source of skilled workers into the workforce who never could have afforded college. (It faced the same opposition: why would you try to educate 'those' people.) The gift turned out to be from our GIs to us. (Recent cutbacks in funding college education for qualified low-income students are worrisome).

Now consider again structural poverty. Presently we have a leaky safety net, part of it called the welfare system and the other part called unemployment insurance, but a safety net is not a human development system. It does not, nor can it ever, address alleviating structural poverty. Many argue we have given all kinds of opportunities and programs to the poor, and it's just throwing money away. We have tried to invest in their development through grants, special training programs, etc., and the results have been discouraging. There is all too much truth in this skepticism, because too many of these programs have been scatter-shot, based more on good intentions than careful cumulative research and demonstration. Some, such as low-income housing projects built at enormous effort and expense, have even been disastrous, exacerbating rather than reducing structural poverty. But this is not the whole or most important truth. Amidst all this well-meant wasted public do-gooding, careful long-term research and demonstrations have determined that certain programs appear to have worked beyond all expectation. And *if* they can be scaled up with the same success rate, we have now an unprecedented chance to slowly and systematically reduce structural poverty with economic returns to society far exceeding the cost.

We now know that growing up in structural poverty produces developmental deficits in most children by school age (observable in IQ tests and brain scans), not often reversible. Thus our society tolerates conditions which impair these children, denying them equal opportunity through no fault of their own. But if we target programs of specific kinds of developmental assistance identified by research, specifically at just high-risk kids and their parents or guardians (low-risk kids neither need nor benefit from these programs and it would be a waste of money), starting at or before birth (school, even pre-school, is too late and too limited to close the gap) and ending as they reach school age, the eventual annualized return on the original cost as these high-risk children reach adulthood is estimated from long-term follow-up studies at 18% a year in continuing increased employment, productivity, and taxes, and reduced crime and welfare costs. While not successful with all children, the approach is so successful with so many that it turns the cost of this human development approach to structural poverty into a public investment with a rate of economic return beggaring the Dow-Jones average. If we cautiously scale up and these returns hold up as the approach is extended to more and more of our high-risk kids, we have an unparalleled public investment opportunity that is not only right but smart. (Note, other effective programs have also been identified, with excellent results returning well more than they cost, if not quite so dramatic as the infant development approach above. These, too, appear well worth trying to scale up.) Before the basic research was done, who knew?

The structural poor thus constitute a large rich pool of untapped talent, just as unschooled children and non-college-educated GIs before them. Again, it should be emphasized that structural poverty and human development programs to reduce it do not exonerate the poor or anyone else from personal responsibility for their own good or poor decisions and behavior, any more than do public education or the GI Bill. But given the statistics, society cannot be exonerated either if it fails to provide the kind of help known to improve the outcomes for these children and for society, particularly if, like public education and the GI Bill, it can do so at great public profit. It is time for legislators to take advantage of these new findings and make public investment in a carefully scaled up human development system for families in structural poverty. We cannot afford not to do so. This is not the place to penny-pinch on "the public services". As the great conservative Edmund Burke reminded us a century and a half ago:

> "Mere parsimony is not economy. Expense, and great expense,
> may be an essential part in true economy."

In other words, policymakers on both sides of the aisle should not fear to engage in large public expenditures *if* they are good public investments, raising not only wellbeing but the national prosperity much more than they cost in tax dollars. Indeed, they hurt the nation if they do not. Likewise, they should largely avoid expenditures for measures that, though worthy, raise prosperity less than their cost in tax dollars; too many of these and they become an unsustainable drain on the public purse.

Structural poverty is not the only opportunity for wise high-return public investments in human development. A second great opportunity is health care. The major point about this opportunity is to dispel the widespread notion, held by many short-sighted if well-meaning politicians, that universal health care and coverage is some kind of extravagant government give-away at the expense of the taxpayer, a free lunch for those who can't or won't buy health insurance. This notion is not only wrong, it utterly misses the point and cuts the nation's throat. We need to reframe our thinking about universal care and coverage, and the proper parallel is universal public education; no well-informed person thinks universal public education a government free lunch for those who can't or won't pay for adequate schooling. Universal care and coverage, just like universal public education, is similarly a shrewd public investment with enormous return to the nation's economy as well as its wellbeing, an investment we are foolish not to make: if you wish to out-compete a billion Chinese, you better have a smarter, healthier workforce than anyone else. Not only must we invest in the education and skills of our workforce, but in their health, from birth to retirement. The untreated and undertreated ill constitute a vast untapped pool of talent. Sickness is costly to producers, shrinks our workforce, saps its productivity, and burdens the nation; good health cuts costs, expands our workforce and increases its productivity. A big reason other countries achieve a healthier workforce at much less cost than us is because they cover everybody. They start at birth and reap the benefits: better health maintenance and its attendant lower costs. Done right, universal coverage for the working population and children is therefore no more a government handout than universal public education; it is a huge opportunity for a smart public investment in our present and future workforce, with great returns to societal prosperity as well as individual wellbeing. And note, by working population is meant not just those in the paid workforce but all those individuals, including homemakers and retirees, performing countless unpaid hours of family care and voluntary service. (Parenthetically, though not part of this argument, if we are a decent society even those elders no longer working warrant our concern. Although no longer a public investment, most have done their best during their working years and merit our respect and care in their decline when they can least afford health care. If care and coverage at public expense for these elderly is charity, so be it; virtually all Americans support it.)

The second major point about this opportunity is that it offers a double bang-for-the-buck: done right, universal health care and coverage can also be used to stop the run-away cost of health care described earlier, and bring it in line with the rest of the economy. The caveat is 'done right'. Unfortunately our present attempt at universal care and coverage for the non-elderly, Obamacare, just like Medicare before it, has not been done right. Both have ignored Adam Smith and omitted any sound market incentives on either providers or patients for quality and economy (...ironic, since presumably designed by economists!), which is why costs are soaring out of control.

Needing the benefits but insulated from the true cost, elders presently have little idea what a financial disaster to the country their program has been. Obamacare seems doomed to follow the same trajectory. This need not be. Why weren't sensible incentives installed in Medicare and now Obamacare in the first place; where were our conservatives and Smithian liberals? Isn't it high time for them to now correct these programs with incentives that will protect quality and bring costs under control? Shouldn't conservatives wake up that proper universal coverage is essential for the nation's future economic as well as physical health, get behind these programs and see that they are redesigned to include sound incentives – in short, don't fight Obamacare, redo it and get it right. And equally, shouldn't liberals finally wake up and stop thinking government can beat health care providers into submission by coercive controls (in 50 years of Medicare...our large 'single payer' program...they have not succeeded) – in short, recognize with conservatives that sound incentives on both patients and providers are essential to cost-contained universal care and coverage? If the health care market continues unsound, its costs will remain uncontrollably inflationary whether coverage is made universal or not. The nation loses on every count: our gift to the elderly will become unsustainable; our investment opportunity of universal coverage for our workforce, and for our children who will be our future workforce, will be blown. It is time to abandon both current failed approaches, the present unsound private market and single-payer command regulation, and instead restructure health care into a sound market with universal affordable coverage. One would hope far-sighted legislators on both sides of the aisle would now heed Adam Smith and support amendments to overhaul Obamacare and Medicare with proper incentives and bring this great public investment opportunity to fruition.

Lastly, consider a far greater example of wealth destruction due lack of adequate public services, greater than even the unsound health care market: the finance industry. The cause of the great economic collapse of 2008 is well known: failure to maintain a sound market in finance. Goverment abandoned oversight regulation of the financial market, a vital public service, on the preposterous notion that this market would self-regulate in its own interest. (To his credit Alan Greenspan, an outspoken advocate before, admitted publically after the collapse this idea was sadly wrong.) Left unprotected, the necessary conditions for a sound financial market were rapidly eroded as the finance industry in unbridled avarice undid all the restraints (again validating Smith's cautions). Wholesale wild and wooly risks and speculation in subprime mortgages ensued. The bubble burst, the national and world economy collapsed, millions of people were left (and many remain) homeless, jobless and impoverished. (And yet some would tell us greed is good...!) And the bankrupt finance industry had to be bailed out at enormous expense by its victims, the taxpayers – a welfare system for the rich, lest they forget, beggaring any welfare system for the poor in this country. The human and economic loss from abeyance of this crucial public service was colossal.

An irony is that we know exactly the kind of regulation by the public services needed to keep the financial market sound. It was devised by Ronald Reagan's first head of the Federal Reserve, Paul Volcker. One would hope that responsible legislators *and* public-spirited private financial leaders would step forward to cooperate and enact this regulation to make finance a sound market. It is a great public investment opportunity for proper use of the public services. But what we see enacted is the weak Dodd-Frank regulation, a pale reflection of the needed Volcker regulation. And what we see is the finance industry spending millions on lobbying and campaign contributions to erode even Dodd-Frank, again endangering the nation's economy and the taxpayers. Surely there are financial leaders who want their industry to serve the nation rather than imperil it. One must admonish responsible legislators and financial leaders to finally listen to Adam Smith and establish a sound, soundly regulated, market in finance.

Summing up, policy must be mindful, as Adam Smith taught us, that the production of wealth for the nation requires both sound markets and sound public services, and one without the other will prove, as they already have, costly to our national competitiveness and wellbeing. Public stimulus of private investment, if and when needed, is all well and good, but a wise, far-sighted Administration and Congress will see to adequate steady investment in the public services vital to our wellbeing that boost our prosperity well beyond their cost; in particular: that our sound markets are given proper oversight to assure they stay sound; that our unsound health care and financial markets are redesigned with proper incentives; that we enact a sound plan for universal health care and coverage; that we maintain adequate support of public health, public education and basic research; and that we attempt a strong new targeted public investment in human development to reduce structural poverty. In this latter we would employ Adam Smith's double-barreled union of sound markets and the public services to advance a cause held dear not just by Pope Francis and Adam Smith but every major religion and, more pointedly, by our own Constitutional obligations to promote the general welfare and equal opportunity.

The technical details of these initiatives are reasonably in hand among the various expert specialists; that is not what's holding us up. Now needed are the political wisdom and will. What will it take to break today's stalemate of simplistic political ideologies, some allegedly based on Adam Smith himself? Part of the answer may be helping Americans understand what Smith actually said rather than the caricature presently pushed by special interests. But it will take much more. What will it take to build, to mobilize, an aroused well-informed body of citizens, legislators and leaders ready to abandon empty myths and recognize, indeed demand, with Adam Smith that a vital well-run public sector is as crucial to the nation's wealth and wellbeing as a vital well-run private sector? That is a question beyond the scope of this brief article, but, surely a nation that established a Republic based on liberty and justice for all, that abolished slavery, that extended the vote to all its citizens regardless of gender and race, ought be up to the task. ■