

GCS Unit 2: Europe

The Wealth of Nations: Adam Smith (1776)

Adam Smith was one of the first proponents of free enterprise. In his 1776 publication, The Wealth of Nations, Smith argued against mercantilism, a system in which the government plays a strong role in the nation's economy, particularly by limiting foreign trade in the quest to protect domestic industries. He is often considered the "Father of Economics" for his support of capitalism. He was particularly supportive of a "laissez-faire" approach, where the government allows the market to regulate itself while being guided by "the invisible hand." According to Smith, participants in the free market seek to maximize their self-interest. This means that sellers will provide what the buyers want because they will benefit, and buyers will buy what benefits them.

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital (money) he can command. It is his own advantage, not that of the society, which he has in [his] view. But the study of his own advantage naturally... leads him to prefer that employment which is most advantageous to the society.

As every individual, therefore, [tries] as much as he can both to [spend his money] in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labors to render the annual [earnings] of the society as great as he can. He generally... neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, 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 [politician who attempts] 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 nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

It is thus that every system which [tries], either by extraordinary encouragements to draw towards a particular industry a greater share of the capital of the society than what would naturally go to it, or, by extraordinary restraints, force from a particular industry some share of the capital which would otherwise be employed in it, is in reality [harmful to] the great purpose

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which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labor.

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. Every 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 to bring both his industry and capital into competition with those of any other man, or order of men...

According to the system of natural liberty, the [government] has only three duties to attend to: ... First, the duty of protecting the society from violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.