Adam Smith and Free Enterprise

Adam Smith, an eighteenth-century Scottish philosopher, published The Wealth of Nations in 1776, the same year the Declaration of Independence was signed. Smith set out to explain how a society of self-interested people could produce order and prosperity without anyone directing it from above. His answer became the foundation of the core value known as **free enterprise**, and it rests on a handful of key principles.

Self-Interest—Smith argued that people don't do things for others out of pure goodwill; they do them because it serves their own interest, and that alone is enough to keep an economy running. “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner,” Smith wrote, “but from their regard to their own interest.” A baker sells bread because it pays, not out of kindness, and society still gets fed.

Competition—Smith distinguished between the **natural price** of a good and its actual **market price**, which rises and falls based on competition. He illustrated the difference with wanting versus being able to pay: a poor man might wish for a “coach and six,” Smith wrote, but that wish is not an **effectual demand**, since “the commodity can never be brought to market in order to satisfy it.” When a good falls short of what buyers are willing and able to pay for, “a competition will immediately begin among them, and the market price will rise more or less above the natural price.” When too much is brought to market, competition among sellers pushes the price back down. No one plans this outcome, yet the market corrects itself anyway.

The Invisible Hand—Smith's most famous idea is that self-interested individuals are, without meaning to, “led by an invisible hand” to promote outcomes that benefit society as a whole. A merchant chasing profit ends up allocating goods, labor, and capital more efficiently than any government planner could manage. Smith was openly skeptical of merchants who claimed to trade “for the public good,” noting dryly that he had “never known much good done” by people who made that claim.

Limited Government—None of this meant Smith wanted no government at all. He believed the state had three legitimate jobs: defending the nation, administering justice impartially, and maintaining public works that private markets would not reliably provide on their own. Beyond that, he warned that any new regulation proposed by merchants and manufacturers deserved suspicion rather than trust, since such proposals “come from an order of men, whose interest is never exactly the same with that of the public.”

Labor and the Source of Value—Smith also asked a deeper question: where does wealth actually come from? Not gold, not silver, and not inherited privilege, but labor itself. “It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased,” he wrote, since “labour therefore is the real measure of the exchangeable value of all commodities.” This idea quietly connects free enterprise to **equality of opportunity**: if wealth comes from what people actually produce rather than from what they're born into, a fair system should reward effort and productivity, not birthright.

Free enterprise, like liberty and equality, is a core value that pulls against other core values. A market left entirely alone may leave people starting from very different places, and closing that gap usually requires exactly the kind of government intervention Smith wanted to limit. That tension, between letting markets run freely and using government to level the playing field, runs through many of the country's biggest political debates.

So Was Smith a Friend to Every Business? Not exactly. Smith is remembered as a champion of the free market, but he had little patience for people who collected income without producing anything. He was skeptical of landlords who lived off rent alone, writing that "the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce." He saved even harsher words for monopolies, especially massive chartered trading companies like the British East India Company, which held a government-granted monopoly over trade with Asia and, by Smith's day, governed much of India directly. Smith called the arrangement one of the worst forms of government there was: "the government of an exclusive company of merchants is, perhaps, the worst of all governments for any country whatever." For Smith, free enterprise wasn't just about government staying out of the market. **It also meant keeping government from handing entire industries over to a favored few.**