Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations, 1776*

*Adam Smith* (1723–1790) was a professor of moral philosophy at the University of Glasgow who helped theorize the economic system of capitalism. Smith rejected mercantilism, in which the state heavily regulated the economy in order to increase its own prestige and coffers. Instead, Smith argued that states ought to embrace a laissez-faire, or hands-off, economic policy, allowing markets to regulate themselves. This would in turn allow people to pursue their own interests and, in doing so, they would create more wealth. Smith’s economic principles guided the policies of nineteenth-century European nations and continue to influence economic thinking.


By restraining, either by high duties, or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home market is more or less secured to the domestic industry employed in producing them…

That this monopoly of the home market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns towards that employment a greater share of both the labor and stock of the society than would otherwise have gone to it, cannot be doubted. But whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident.

The general industry of the society never can exceed what the capital of the
society can employ. As the number of workmen that can be kept in employment by any particular person must bear a certain proportion to his capital, so the number of those that can be continually employed by all the members of a great society, must bear a certain proportion to the whole capital of that society, and never can exceed that proportion. No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone; and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord.

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can demand. 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.

First, every individual endeavors to employ his capital as near home as he can, and consequently as much as he can in the support of domestic industry; provided always that he can thereby obtain the ordinary, or not a great deal less than the ordinary, profits of stock. …

… Home is in this manner the center, if I may say so, round which the capitals of the inhabitants of every country are continually circulating, and towards which they are always tending, though by particular causes they may sometimes be driven off and repelled from it towards more distant employments. But a capital employed in the home trade, it has already been shown, necessarily puts into motion a greater quantity of
domestic industry, and gives revenue and employment to a greater number of the inhabitants of the country, than an equal capital employed in the foreign trade of consumption; and one employed in the foreign trade of consumption has the same advantage over an equal capital employed in the carrying trade. Upon equal, or only nearly equal profits, therefore, every individual naturally inclines to employ his capital in the manner in which it is likely to afford the greatest support to domestic industry, and to give revenue and employment to the greatest number of people of his own country. Secondly, every individual who employs his capital in the support of domestic industry, necessarily endeavors so to direct that industry, that its produce may be of the greatest possible value.

The produce of industry is what it adds to the subject or materials upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit that any man employs a capital in the support of industry; and he will always, therefore, endeavor to employ it in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods.

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavors as much as he can both to employ his capital 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 revenue of the society as great as he can. He generally, indeed, 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. Nor is it always the worse for the society that it was no part of it. By pursuing
his own interest he frequently promotes that of the society more effectually than when he
really intends to promote it. …

What is the species of domestic industry which his capital can employ, and of
which the produce is likely to be of the greatest value, every individual, it is evident, can,
in his local situation, judge much better than any statesman or lawgiver can do for him.
The statesman, who should attempt to direct private people in what manner they ought to
employ their capitals, would not only load himself with a most unnecessary attention, but
assume an authority which could safely be trusted, not only to no single person, but to no
council or senate whatever, and which would nowhere be so dangerous as in the hands of
a man who had folly and presumption enough to fancy himself fit to exercise it.

To give the monopoly of the home market to the produce of domestic industry, in any
particular art or manufacture, is in some measure to direct private people in what manner
they ought to employ their capitals, and must, in almost all cases, be either a useless or a
hurtful regulation. If the produce of domestic can be brought there as cheap as that of
foreign industry, the regulation is evidently useless. If it cannot, it must generally be
hurtful. It is the maxim of every prudent master of a family, never to attempt to make at
home what it will cost him more to make than to buy. …

What is prudence in the conduct of every private family, can scarce be folly in
that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished, no more than that of the above-mentioned artificers, but only left to find out the way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage, when it is thus directed towards an object which it can buy cheaper than it can make. The value of its annual produce is certainly more or less diminished, when it is thus turned away from producing commodities evidently of more value than the commodity which it is directed to produce. According to the supposition, that commodity could be purchased from foreign countries cheaper than it can be made at home. It could, therefore, have been purchased with a part only of the commodities, or, what is the same thing, with a part only of the price of the commodities, which the industry employed by an equal capital would have produced at home, had it been left to follow its natural course. The industry of the country, therefore, is thus turned away from a more to a less advantageous employment, and the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation.

QUESTIONS

1. How does Smith foreshadow certain aspects of modern economies, like a manufacturing sector?

2. Why does Smith argue that governments should stay out of economic regulations?
Does he completely oppose all regulation? Why or why not?

3. How does this document reflect an Enlightenment point of view?