



IS CAPITALISM THE BEST ECONOMIC SYSTEM?

What is Capitalism?

Lesson 2



Adam Smith and Laissez-Faire

August 24, 1776

Dear William,

I am glad to renew my correspondence with you after so many months. As you know I couldn't write because I've been working on my new book, The Wealth of Nations. Now that it is finished I have some time on my hands and can once again take up my pen.

In your last letter you described your views on the role of government in promoting the economic well being of our nation. I find myself in strong disagreement. Permit me to restate my position.

Our economic system works best when government keeps its hands off. The French call this laissez-faire, ". Businessmen should be free to run their businesses in a way that brings them the greatest profit. This leads to a healthy economy because what is good for business is good for the nation. More goods are produced and more jobs are created. Our economic system controls itself. It does not need interference by outside forces – there is an "invisible hand" at work guiding what happens.

My dear William, as I've said before, competition is the most important ingredient in a well functioning economy. It forces each man to produce the highest quality goods at the lowest possible price. Under such a system each person must produce a superior product if he is to survive. Competition also benefits the nation's consumers by keeping prices down. Under this system, businessmen end up producing what the people want at the prices they are willing to pay.

As I said in my new book, "Every man, as long as he does not violate the laws of justice, should be perfectly free to pursue his own interest in his own way, and to bring his industry and capital into competition with those of another man, or order of men."

I hope these sentiments will persuade you to give up your notion that government should interfere with the workings of the economy. (Of course, I will send you a copy of Wealth of Nations as soon as it is available from the printer.) I look forward to your next letter, and pray that you and your lovely family remain in the best of health. Until then, I remain

Your devoted friend and obedient servant,

Adam Smith

Adam Smith
Edinburgh, Scotland



Question: According to Adam Smith who should manage the economy of the nation? Why?



Adam Smith

The following are three excerpts from the writings of Adam Smith.

From the Wealth of Nations:

“The sole purpose of all production is to provide the best possible goods to the consumer at the lowest possible price. Society should assist producers of goods and services only to the extent that assisting them benefits the consumer...he intends his own gain; and he is in this, as in many other causes, led by an invisible hand to promote an end which was no part of his intention...By pursuing his own interest, he frequently promotes that of society.”

According to Smith what should the role of Government be in the economy?

What does the “invisible hand” mean?

From The Quest for a Principle of Authority in Europe:

“Though the involvement of government must have slowed the progress of England toward wealth and improvement, it has not been able to stop it...England has never been blessed with a economical government. It’s highly foolish to believe that Kings and Ministers can watch over the economy of private people and restrain their own expenses through laws or importation of foreign luxuries. They (The politicians) are the greatest spendthrifts (cheapskates) in the society. Let them look after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the ate, that of their subjects never will.”

Who does Smith think should run the economy?

Why does Smith think the Kings and Ministers should stay out of the economy?

Adam Smith Believes in:

Invisible Hand:

Example:

Laissez-Faire:

Example:

Capitalism:

