

Background for “The Invisible Hand: How Millions Cooperate”

Ross Levine

Stanford University

March 2026

Overview

This imagined letter in Adam Smith’s voice draws primarily from *An Inquiry into the Nature and Causes of the Wealth of Nations* (hereafter WN, originally published in 1776; citations follow Glasgow Edition, 5th ed., 1789) and *The Theory of Moral Sentiments* (hereafter TMS, originally published in 1759; Glasgow Edition, 6th ed., 1790). Citations follow Book–Chapter–Section–Paragraph (WN) and Part–Section–Chapter–Paragraph (TMS).

The letter advances four tightly connected claims drawn directly from Smith’s writings:

1. Large-scale social coordination emerges from decentralized exchange rather than central design (WN I–III).
2. The “invisible hand” describes unintended social consequences of self-interested action in specific contexts (TMS IV.1.10; WN IV.ii.9).
3. The division of labor and expanding markets transform productivity through specialization and innovation (WN I.i–III).
4. Such coordination depends upon justice — defined by Smith as enforceable rules preventing force and fraud — without which commercial society degenerates into predation (TMS II.ii.3.3; WN I.x.c.27; WN I.xi.b.5).

As in the earlier background papers, each major claim from the Substack letter is identified and examined against Smith’s texts.

1. Large-Scale Cooperation Without Central Design

Letter’s claim: “No council planned this coordination. No authority commands it. And still, it works.”

Smith explicitly denies that general prosperity arises from centralized foresight.

In WN I.i.1–3, Smith demonstrates how the division of labor dramatically increases output in the pin factory example. He then clarifies that this order does not arise from deliberate design:

“This division of labour... is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion.”
(WN I.ii.1)

The division of labor instead arises from:

“a certain propensity in human nature... the propensity to truck, barter, and exchange one thing for another.” (WN I.ii.1)

Thus, the letter’s claim that no council planned this coordination is a faithful paraphrase of Smith’s rejection of centralized economic design.

Letter’s claim: “In seeking their own advantage... they serve society ‘more effectually’...”

The full quotation is:

“He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the publick good.” (WN IV.ii.9)

The Substack letter quotes from the first sentence of this passage; the second sentence reflects Smith’s polemic against mercantilist claims to trade for the “publick good.” The cited sentence supports the letter’s claim that unintended social benefit may arise from self-interested action under appropriate institutional conditions.

2. Exchange Rather Than Benevolence

Letter’s claim: “Cooperation cannot depend on benevolence. It depends on voluntary exchange.”

Smith writes:

“Man has almost constant occasion for the help of his brethren... it is in vain for him to expect it from their benevolence only.” (WN I.ii.2)

He continues:

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.” (WN I.ii.2)

And:

“We address ourselves, not to their humanity but to their self-love...” (WN I.ii.2)

Smith’s argument is structural, not moral praise of selfishness. Large societies cannot rely on personal affection. Exchange works because each party appeals to the other’s advantage:

“Give me that which I want, and you shall have this which you want...” (WN I.ii.2)

The Substack's explanation that "If either side is unpersuaded, they walk away" reflects Smith's logic of voluntary exchange.

Letter's claim: "Each day, strangers feed you... They do not know your name. And yet they serve you."

This follows directly from Smith's description of human interdependence in commercial society (WN I.ii.1–2). Individuals depend constantly on the labor and cooperation of persons with whom they share no personal affection.

3. Justice as the Necessary Institutional Condition

Letter's claim: "By justice, I mean clear and enforceable rules that forbid force, fraud, and coercive privilege."

Smith sharply distinguishes justice from beneficence.

In TMS II.ii.1–3, he explains that justice consists of negative duties: refraining from harming others. These duties are enforceable:

"We may often fulfil all the rules of justice by sitting still and doing nothing."
(TMS II.ii.1.9)

Most explicitly:

"Justice... is the main pillar that upholds the whole edifice. If it is removed... the great, the immense fabric of human society... must in a moment crumble into atoms." (TMS II.ii.3.4)

Smith immediately clarifies the priority of justice over beneficence:

"Beneficence, therefore, is less essential to the existence of society than justice. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it." (TMS II.ii.3.3)

He further contrasts justice with beneficence, as beneficence "cannot be extorted by force."
(TMS II.ii.1.3)

Thus, the letter's definition faithfully reflects Smith's account of justice as enforceable restraints preventing injury.

4. Competition as a Disciplining Force

Letter's claim: The letter explicitly includes "competition" as a condition of voluntary exchange: "Voluntary exchange—disciplined by competition and secured by justice."

Although Smith does not formalize a modern theory of competition, he repeatedly treats rivalry as the mechanism disciplining private interest.

In WN I.vii, he explains how competition regulates market price:

“The market price... is regulated by the proportion between the quantity... brought to market, and the demand...” (WN I.vii.5)

When supply exceeds demand, sellers compete and reduce price; when demand exceeds supply, buyers compete and bid it up (WN I.vii.7–9).

Smith also warns that absent competition, self-interest becomes predatory:

“People of the same trade seldom meet together... but the conversation ends in a conspiracy against the publick.” (WN I.x.c.27)

He further cautions:

“The interest of the dealers... is always in some respects different from, and even opposite to, that of the publick... and ought always to be listened to with great precaution.” (WN I.xi.p.10)

Smith describes monopoly as “...a great enemy to good management.” (WN I.xi.b.5)

Thus, competition for Smith is not a theorem of optimality but the practical condition restraining collusion and monopoly.

5. The Invisible Hand: Text, Context, and Later Usage

Letter’s implicit claim: The phrase “invisible hand” does not function in Smith’s writings as a universal doctrine of market perfection, but it has come to serve as a widely recognized shorthand for his broader account of decentralized coordination under justice.

This claim requires careful clarification, since the metaphor “invisible hand” occupies a far more prominent place in modern discussions of Smith than it does in Smith’s own corpus.

5.A. Textual Rarity

Smith uses the phrase “invisible hand” only three times in his published writings:

1. *History of Astronomy* (in *Essays on Philosophical Subjects*), referring to the “invisible hand of Jupiter” (EPS, “History of Astronomy,” III.2), an ironic reference to pagan superstition.
2. TMS IV.1.10, describing unintended distributive consequences of the rich landlord’s consumption.

3. WN IV.ii.9, describing unintended domestic benefits of a merchant's preference for local investment.

No other occurrence appears in Smith's published works.

5.B. Narrow Contexts

In TMS IV.1.10:

"They are led by an invisible hand to make nearly the same distribution of the necessaries of life..." (TMS IV.1.10)

In WN IV.ii.9:

"...he is in this... led by an invisible hand to promote an end which was no part of his intention." (WN IV.ii.9)

In both cases, the metaphor describes specific unintended consequences. It is not presented as a general organizing doctrine.

5.C. Later Popularization of the Phrase

Although discussed in the nineteenth century, the "invisible hand" did not become the dominant shorthand for Smith's system until the mid-twentieth century, particularly through economics textbooks and the formalization of neoclassical equilibrium theory. From that point forward, the "invisible hand" increasingly served as a summary label for decentralized coordination.

5.D. Interpretive Strategy

The Substack letter consciously engages this later shorthand. It does not claim that Smith himself used the phrase as a comprehensive doctrinal label. Rather, it uses the familiar expression as a gateway into Smith's broader analysis of division of labor, exchange, competition, and justice.

6. Specialization and Growth

Letter's claim: "Through specialization, exchange, expanding markets, and competition, ordinary self-interest becomes an engine of discovery and growth."

Smith begins WN by stating plainly that the division of labour is the main source of productivity growth:

"The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour." (WN I.i.1)

He then provides the most direct summary of the mechanisms by which specialization raises productivity:

“This great increase of the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.” (WN I.i.5)

6.A. Dexterity: doing one thing repeatedly makes workers vastly more productive

Smith emphasizes that division of labour “reduces every man’s business to some one simple operation” and thereby “necessarily increases very much the dexterity of the workman.” (WN I.i.6) He illustrates this with nail-making:

“A common smith... has never been used to make nails... will scarce... be able to make above two or three hundred nails in a day... A smith who has been accustomed to make nails... can seldom... make more than eight hundred or a thousand nails in a day. I have seen several boys... who had never exercised any other trade but that of making nails... could make... upwards of two thousand three hundred nails in a day.” (WN I.i.6)

This is Smith’s direct empirical-style illustration that specialization increases efficiency through habit and skill.

6.B. Saving time

Smith’s second mechanism is time saved by not constantly shifting tools and tasks:

“The advantage which is gained by saving the time commonly lost in passing from one sort of work to another, is much greater than we should at first view be apt to imagine.” (WN I.i.7)

He adds the concrete observation:

“It is impossible to pass very quickly from one kind of work to another, that is carried on in a different place, and with quite different tools.” (WN I.i.7)

And he describes the behavioral consequence of frequent switching:

“A man commonly saunters a little in turning his hand from one sort of employment to another... for some time he rather trifles than applies to good purpose.” (WN I.i.7)

6.C. Invention: specialization directs attention and generates new methods and machines

Smith's third mechanism is invention — and here he is unusually explicit about how specialization generates innovation.

First, he makes the general claim:

“The invention of all those machines by which labour is so much facilitated and abridged, seems to have been originally owing to the division of labour.” (WN I.i.8)

He then explains the psychological channel:

“Men are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things.” (WN I.i.8)

Next, he adds a sharper institutional claim about who invents:

“A great part of the machines made use of in those manufactures in which labour is most subdivided, were originally the inventions of common workmen...” (WN I.i.8)

And he gives a memorable example from early steam engines:

“In the first fire-engines, a boy was constantly employed to open and shut... One of those boys... observed that, by tying a string... the valve would open and shut without his assistance... One of the greatest improvements that has been made upon this machine... was in this manner the discovery of a boy who wanted to save his own labour.” (WN I.i.8)

Taken together, these passages directly support the letter's claim that specialization and expanding markets generate sustained productivity improvements and innovation: specialization increases dexterity, reduces switching losses, and channels attention toward invention and improvement (WN I.i.1; I.i.5–8).

7. Limits of Commercial Society

Letter's claim: “This order enlarges the economy. It does not abolish hardship. And it does not, by itself, secure virtue.”

Smith explicitly supports all three propositions.

First, commercial society increases material output (WN I.i.10).

Second, division of labor may degrade the worker:

“The man whose whole life is spent in performing a few simple operations... becomes as stupid and ignorant as it is possible for a human creature to become.”
(WN V.i.f.50)

Third, admiration of wealth corrupts moral sentiments:

“This disposition to admire, and almost worship, the rich and the powerful, and to despise, or, at least to neglect persons of poor and mean condition ... [is] the great and most universal cause of the corruption of our moral sentiments.” (TMS I.iii.3.1)

Thus, economic growth does not guarantee moral or intellectual flourishing.

8. Nature’s Deception

Letter’s claim: “Ambition may disappoint the person. But it enlarges the world.”

In TMS IV.1.8–9, Smith recounts the poor man’s son pursuing wealth for imagined felicity. He concludes:

“And it is well that nature imposes upon us in this manner. It is this deception which rouses and keeps in continual motion the industry of mankind.” (TMS IV.1.10)

Ambition misleads individuals about happiness yet promotes aggregate industry.

Letter’s claim: “Without them, coordination gives way to domination.”

This reflects Smith’s claim that without justice, society “must in a moment crumble into atoms.” (TMS II.ii.3.3).

Conclusion

Every major claim in “The Invisible Hand: How Millions Cooperate” is grounded directly in Smith’s writings.

The letter reflects Smith’s integrated account of moral psychology, institutional justice, decentralized exchange, and unintended social order: peaceful cooperation can emerge without intention when exchange is voluntary, and justice governs conduct.