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## Background for “Enemies of the Invisible Hand”

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### 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, 1776; citations follow Glasgow Edition, 5th ed., 1789) and *The Theory of Moral Sentiments* (hereafter TMS, 1759; Glasgow Edition, 6th ed., 1790). Citations follow Book–Chapter–Section–Paragraph (WN) and Part–Section–Chapter–Paragraph (TMS).

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

1. Well-functioning markets depend not on self-interest alone, but on competition constrained by justice.
2. Economic actors have persistent incentives to restrict competition through collusion, monopoly, and regulation.
3. These efforts frequently operate through political processes (e.g., mercantilism).
4. Moral sentiments—especially admiration—shape judgment, including whether privileges are tolerated or resisted.
5. Markets are not self-sustaining systems; they depend on legal and moral conditions that must be actively maintained.

Smith’s central insight about “the invisible hand” is that competitive markets constrained by justice generate peaceful coordination and progress, but they are institutionally contingent. The same self-interest that drives persuasion and exchange can also be redirected to restrict competition, shape rules, and entrench privilege. **Competitive markets can produce prosperity—but they do not reliably dismantle the structures that distort them.**

### 1. Two Paths to Success: Persuasion vs. Constraint

**Letter’s claim:** “There are two ways to succeed in a market... persuade others... or arrange things so they have no real choice.”

### Textual Basis

Smith does not represent the strategies for obtaining market success as a strict dichotomy: people may engage in both strategies. But he clearly distinguishes (1) voluntary exchange, governed by persuasion, and (2) privilege, monopoly, and coercion that constrain choice.

In WN I.ii.2, Smith explains the logic of exchange by first giving his practical formula:

“Give me that which I want, and you shall have this which you want ...”

And:

“We address ourselves, not to their humanity but to their self-love...”

Exchange requires offering value, i.e., persuasion.

By contrast, Smith repeatedly describes systems where outcomes are shaped not by persuasion but by constraint:

“To widen the market and to narrow the competition, is always the interest of the dealers.” (WN I.xi.p.10)

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

Smith also stresses that restricting competition is a persistent, organized strategy—an “unconquerable” motivation to gain profit through government protections and favors. (WN IV.ii.43)

Thus, while not binary, Smith contrasts systems in which gain is earned primarily through voluntary exchange and persuasion with those in which it is secured by limiting alternatives.

## **2. The Core Diagnosis: Limiting Competition**

**Letter’s claim:** “Markets do not fail when people seek gain. They falter when people can secure it without competition.”

### **Textual Basis**

Smith repeatedly shows that restrictions on competition increase prices, reduce output, and hurt efficiency.

I will provide one piece of supporting evidence here for the claim and more below when discussing monopoly, political capture, and misplaced admiration.

As briefly quoted in the letter, Smith argues

“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from

sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary.” (WN I.x.c.27)

Smith’s point is not that competition fails randomly, but that it is **actively undermined** by participants—including by those who have gained the most from markets.

Please also note the last two sentences of the quotation: Smith does not focus on using the law (and the state) to restrict such assemblies; instead, he stresses that the law and state should not facilitate limits on competition and the contestability of markets.

The sections below demonstrate that this is not an isolated observation but reflects Smith's systematic analysis of how competitive markets are undermined through legal, political, and moral channels.

### **3. The First Enemy: Monopoly, Guilds, and Legal Privilege**

**Letter’s claim:** “Guilds restricted who could practice a trade. Apprenticeships were prolonged. Permissions were required. Those already established used the law to keep others out.”

#### **Textual Basis**

Smith consistently argues that monopoly is harmful and often legally constructed and protected.

He repeatedly links monopoly to higher prices, restricted output, and weakened incentives for efficient management. He explains that monopolists raise prices “by keeping the market constantly under-stocked” and “by never fully supplying the effectual demand” (WN I.vii.26), so that “the price of monopoly is upon every occasion the highest which can be got” (WN I.vii.27). More broadly, he adds that “Monopoly... is a great enemy to good management” (WN I.xi.b.5), emphasizing the loss of competitive pressure that would otherwise discipline behavior and promote efficiency and improvement.

Smith also stresses that merchants and traders will constantly seek to limit competition:

“To widen the market and to narrow the competition, is always the interest of the dealers.” (WN I.xi.p.10)

These quotations are foundational for Smith. They capture his views that (1) curtailing competition and contestability harms the wealth of nations and (2) business leaders who benefit from markets also have incentives to undermine markets by limiting rivals and potential rivals.

The interpretation is further supported by Smith’s extensive critique of guilds and apprenticeships:

“The exclusive privileges of corporations, statutes of apprenticeship, and all those laws which restrain, in particular, the competition to smaller number than might otherwise go into them ... are ... a sort of enlarged monopolies ...” (WN I.vii.28)

And he criticizes restrictions on labor mobility and entry, arguing that hindering people from employing their skills:

“... is a manifest encroachment upon the just liberty both of the workman, and of those who might be disposed to employ him. As it hinders the one from working at what he thinks proper, so it hinders the others from employing whom they think proper. To judge whether he is fit to be employed, may surely be trusted to the discretion of the employers whose interest it so much concerns.” (WN I.x.c.12)

Smith adds:

“The affected anxiety of the law-giver lest they should employ an improper person, is evidently as impertinent as it is oppressive.” (WN I.x.c.12)

He also rejects the standard justification for apprenticeship restrictions:

“The institution of long apprenticeships can give no security that insufficient workmanship shall not frequently be exposed to public sale. When this is done it is generally the effect of fraud, and not of inability; and the longest apprenticeship can give no security against fraud. Quite different regulations are necessary to prevent this abuse” (WN I.x.c.13)

Smith’s conclusion is unequivocal. Monopoly, apprenticeships, etc., are rhetorically justified as quality control but function economically as barriers to entry.

#### **4. The Second Enemy: Political Capture (Mercantilism)**

**Letter’s claim:** Firms pursue private advantage through politics, regardless of its adverse effects on society. As the letter states: “In my day, this took the form of the mercantile system. Merchants persuaded governments that national prosperity required protecting their industries. Tariffs were imposed. Monopolies granted. Trade was directed to favor particular producers. The language was patriotic—defending jobs, industry, and national strength. The reality was privilege.”

##### **Textual Basis**

One of the central purposes of the WN is to detail the shortcomings of mercantilism. In Book IV, Smith’s account of mercantilism describes a system of political economy in which governments, influenced by merchants and manufacturers, use regulation, monopoly, and trade restrictions to privilege domestic producers under the mistaken belief that national wealth consists in accumulating money (gold and silver) rather than in the production and consumption of goods. Or, put succinctly: Mercantilism is what happens when merchants stop competing for customers and start competing for protection.

Smith’s critique of mercantilism proceeds through four connected arguments:

**4.1: The intellectual foundation.** Smith rejects the view that money (gold and silver) *per se* equals wealth—that is, he rejects the intellectual foundation of mercantilism—and therefore he rejects the policies that follow from this premise, including restraints on imports and encouragements for exports. (WN IV.i, especially 34-45; and IV.ii.c.2)

**4.2: The political origin.** Smith is clear that it was those seeking to raise prices and profit from government protections who invented the doctrine of mercantilism and the “sophistry” they used to convince others of its validity.

“That it was the spirit of monopoly which originally both invented and propagated this doctrine, cannot be doubted; and they who first taught it were by no means such fools as they who believed it. In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest, that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question, had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people.” (WN IV.iii.c.10)

**4.3: The persistence mechanism: Intimidation of government.** Smith argues that once government protections enrich business leaders, those leaders will influence government officials to defend and expand those protections:

“[Those protected by government restrictions] have become formidable to the government, and upon many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, ... [nothing] can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from insolent outrage of furious and disappointed monopolists.” (WN IV.ii.43)

**4.4: The interpretive warning.** Smith was deeply suspicious of policy recommendations coming from business because they would try—often successfully—to deceive and oppress the public to get further their interests, not the public’s:

“The proposal of any new law or regulation of commerce which comes from this order [merchants and traders], ought always to be listened to with great precaution, and ought never to be adopted till having been long

and carefully examined, not only with the most scrupulous, but also with the most suspicious attention.” (WN I.xi.p.10)

Crucially, he adds:

“It comes from an order of men, whose interest is never exactly the same with that of the publick, who have generally an interest to deceive and even to oppress the publick, and who accordingly have, upon many occasions, both deceived and oppressed it.” (WN I.xi.p.10)

Smith repeatedly notes that policies are framed as serving the national interest but benefit organized private interests. This directly supports the letter’s statement: “The language was patriotic... The reality was privilege.”

This supports the letter’s claim that: “The most dangerous enemies of markets do not oppose them openly. They speak in their name—while quietly asking to be shielded from them.”

## **5. The Third Enemy: Misplaced Admiration as a Political Force**

**Letter’s claim:** Admiration of the rich and powerful distorts our judgment about what is right and wrong, which undermines a foundational piece of the invisible hand: justice

### **Textual Basis**

Misplaced admiration cuts across much of Smith’s insights into the individual and society. I already provided information on the effects of misplaced admiration in the second background paper. Here are a few additional quotations for interested readers.

#### **5.1. Admiration of Wealth and Power Distorts Judgment**

“This disposition to admire, and almost to 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)

When we admire the wrong people, this corrupts our sense of right and wrong—it distorts our judgment.

#### **5.2 The Distortion of Judgment Means Justice Becomes Partial, not Impartial**

When society admires the wrong people—corrupting our judgment, this leads society to overlook their faults:

“We desire both to be respectable and to be respected. We dread both to be contemptible and to be contemned. But, ... we soon find that wisdom and virtue are by no means the sole objects of respect; nor vice and folly,

of contempt. We frequently see the respectful attentions of the world more strongly directed towards the rich and the great, than towards the wise and the virtuous. We see frequently the vices and follies of the powerful much less despised than the poverty and weakness of the innocent.” (TMS I.iii.3.2)

And

“In equal degrees of merit there is scarce any man who does not respect more the rich and the great, than the poor and the humble. With most men the presumption and vanity of the former are much more admired, than the real and solid merit of the latter. ... The profligacy of a man of ... [wealth and power] ... is looked upon with much less contempt and aversion, than that of a man of meaner condition. In the latter, a single transgression of the rules of temperance and propriety, is commonly more resented, than the constant and avowed contempt of them ever is in the former.” (TMS I.iii.3.4)

In this way, judgment—and hence justice—becomes partial, not impartial; and it is unlikely to be applied equally

### **5.3 Admiration→Corrupted Sentiments→Biased Judgment→Partial Application of Justice**

Society’s judgment about right and wrong shapes how people pursue that admiration.

“To deserve, to acquire, and to enjoy the respect and admiration of mankind, are the great objects of ambition and emulation. Two different roads are presented to us ... the one, by the study of wisdom and the practice of virtue; the other, by the acquisition of wealth and greatness.” (TMS I.iii.3.2)

Smith continues:

“It is from our disposition to admire, and consequently to imitate, the rich and the great, that they are enabled to set, or to lead what is called the fashion. Their dress is the fashionable dress; the language of their conversation, the fashionable style; their air and deportment, the fashionable behaviour. Even their vices and follies are fashionable; and the greater part of men are proud to imitate and resemble them in the very qualities which dishonour and degrade them.” (TMS I.iii.3.7)

This further highlights how admiring the wrong people distorts judgment and justice. Justice remains in form—but becomes unequal in practice.

#### 5.4. Justice is Essential for Society to Function

“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)

Thus, misplaced admiration undermines the moral and institutional conditions required for the invisible hand to function.

#### 5.5: Connecting Admiration to Market Function

The connection to competitive markets is direct: when society admires those who prosper through privilege rather than persuasion, justice becomes partial. As shown in Sections 3-4 above, merchants and manufacturers seek monopoly and protection. When such privilege is admired rather than condemned, it proliferates. The institutional foundation of competitive markets—impartial enforcement of rules against coercion and fraud—erodes.

Smith's point is not that admiration causes economic distortion directly, but that it removes the moral and political resistance that would otherwise limit the spread of monopoly and privilege. Misplaced admiration is an 'enemy of the invisible hand' because it disarms society's defenses against the enemies documented in Sections 3-4.

### 6. Markets Do Not Defend Themselves

**Letter's claim:** “Markets do not defend themselves.”

#### Textual Basis

**6.1 Narrow interests continuously seek to limit the competition they face through collusion and the coercive power of the state.** This is not an occasional deviation—it is a persistent tendency. (WN I.x.c.27; WN I.xi.p.10; WN IV)

**6.2 Once established, restrictions become embedded in law: legal structures encode and perpetuate restrictions.** Smith does not suggest that the market dissolves them (WN I.x.c.7-13; WN I.xi.p.10; WN IV.ii.43)

Competitive markets constrained by justice are not self-sustaining equilibria; they are institutionally contingent systems.

Thus, the letter's claim that 'markets do not defend themselves' accurately reflects Smith's view that competitive markets depend on institutional conditions—especially justice and resistance to monopoly—that must be actively maintained against persistent contrary pressures.

## 7. Justice as the Binding Constraint

**Letter's claim:** Markets require “simple but strict rules—no coercion, no fraud, no theft; equal laws, impartially enforced.”

### Textual Basis

**7.1 Justice: rules and enforcement.** As stressed in the background paper to the “Invisible Hand” letter, Smith stressed that the “invisible hand” requires justice, which Smith defines as a system of precise and accurate rules that prohibit injury and may be compelled by force (TMS II.ii.1.5-7; TMS II.ii.1.9; TMS II.ii.2.2; TMS III.6.11).

**7.2 Rules require refraining from harming others.** These rules are largely negative—requiring that individuals refrain from harming others through coercion, fraud, or violation of rights. (TMS III.vi)

**7.3 Impartial administration of justice is essential for freedom and prosperity.** Smith emphasizes that the effectiveness of justice depends on its impartial administration; when laws are not applied equally, confidence in legal order deteriorates (WN V.i.b). Thus, while Smith does not present a comprehensive system of jurisprudence, he stresses that markets require simple, enforceable rules against coercion and fraud—applied impartially.

**7.4 Judicial independence.** Smith notes that to obtain and maintain judicial impartiality, the judicial system must be independent of the executive branch of government: “When the judicial is united to the executive power, it is scarce possible that justice should not frequently be sacrificed to... partial interest.” (WN V.i.b.25)

Thus, the letter's formulation—'simple but strict rules—no coercion, no fraud, no theft; and laws that are applied impartially'—accurately captures Smith's insistence that justice requires both clear prohibitions and equal enforcement."

## 8. Power Persistence

**Letter's claim:** “Power, once acquired, does not easily dissolve. Privilege resists challenge. Advantage entrenches itself.”

### Textual Basis

Smith's analysis clearly implies that power is persistent and not self-correcting. As documented above:

- Interests organize to use their power to gain, maintain, and expand advantages.
- Laws encode those advantages.
- Beneficiaries resist change.

## 8.1 Privilege will not dissolve easily

Here is the full quotation that I used part of above:

“To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the publick, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. Were the officers of the army to oppose with the same zeal and unanimity any reduction in the number of forces, with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home market; were the former to animate their soldiers, in the same manner as the latter enflame their workmen, to attack with violence and outrage the proposers of any such regulation; to attempt to reduce the army would be as dangerous as it has now become to attempt to diminish in any respect the monopoly which our manufacturers have obtained against us.” (WN IV.ii.43)

This passage reveals three critical points:

First, Smith believes organized private interests are 'unconquerable'—not easily overcome.

Second, these interests don't merely lobby; they 'animate,' 'enflame,' and threaten 'violence and outrage.' Privilege is defended aggressively.

Third, Smith describes this as the permanent condition of commercial society (*has now become*), not a temporary aberration.

## 8.2: Legal entrenchment reinforces the persistence of privilege

As discussed above, Smith argues that merchants and traders continually organize to have laws enacted and maintained that limit competition and raise prices; and that these efforts are a natural feature of markets. (WN I.xi.p.10)

As discussed above, Smith explains that labor restrictions are not temporary distortions. They are legal structures maintained over time to exclude competitors. (WN I.x.c.7-13)

Smith's analysis of the Corn Laws and Navigation Acts (WN IV.ii, IV.v) further illustrates this persistence. These restrictions, though economically harmful, endured for generations because beneficiaries blocked reform. Smith does not argue such laws would naturally erode—he argues for their repeal precisely because entrenched interests prevent natural dissolution.

Removing legal restrictions requires political action—and Smith shows that political action is often blocked by organized interests. Thus, the letter's emphasis on persistence—and the absence of self-correction—directly reflects Smith's analysis: markets depend on conditions that must be actively defended, and those conditions face 'unconquerable' opposition from organized interests.

**There is no invisible hand of politics.**

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## Conclusion

Every major claim in “Enemies of the Invisible Hand” is grounded in Adam Smith’s writings.

The letter synthesizes three core strands of Smith’s thought:

1. Economic: Competition is essential for disciplining self-interest, but actors have persistent incentives to restrict competition through collusion (WN I.x.c.27), monopoly (WN I.vii.26-27; I.xi.b.5), and legal barriers (WN I.x.c.12-13).
2. Political: These efforts operate through political processes, particularly mercantilism, where organized interests capture policy to secure privilege rather than compete for customers (WN IV.ii.43-44; I.xi.p.10).
3. Moral: Admiration shapes whether such privilege is resisted or accepted—and hence whether justice is partially applied, leading to institutional decay (TMS I.iii.3.1-4).

Smith’s central insight, as captured in the letter: **Markets fail not because people pursue self-interest, but because they discover how to pursue it without serving others.**

This occurs when success can be secured through restricting entry (monopoly/guilds), shaping rules (political capture), and exploiting corrupted sentiments (privileged elites receiving partial treatment).

The invisible hand—unintended social coordination through competitive exchange—depends on institutional conditions: justice (TMS II.ii.3.3-4), competition (WN I.vii; I.x.c.27), and resistance to privilege (WN I.xi.p.10). These conditions are not self-sustaining. They face 'unconquerable' opposition from organized interests (WN IV.ii.43) and must be actively defended.

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## Addendum: Progress Despite Enemies

This fourth letter on the “Enemies of the Invisible Hand” does not present Smith’s view that, despite these formidable enemies, “the uniform, constant, and uninterrupted effort of every man to better his condition” can yield freedom and progress.

However, I thought it would be valuable to end with this quotation from the Wealth of Nations.

“This frugality and good conduct, however, is upon most occasions, it appears from experience, sufficient to compensate, not only the private prodigality and misconduct of individuals, but the publick extravagance of government. The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which publick and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government, and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite not only of the disease, but of the absurd prescriptions of the doctor.” (WN II.iii.31)