



Adam Smith: The Father Of Economics

by Lisa Smith ([Contact Author](#) | [Biography](#))

Adam Smith is often touted as the world's first [free-market](#) capitalist. While that designation is probably a bit overstated, Smith's place in history as the father of modern economics and a major proponent of [laissez-faire](#) economic policies is quite secure. Read on to learn about how this Scottish philosopher argued against [mercantilism](#) to become the father of modern free trade.

Early Life

The recorded history of Smith's life begins on June 16, 1723, at his baptism in Scotland. His birthday is undocumented. Smith attended the University of Glasgow at age 14, later transferring to Balliol College in Oxford, England. He spent years teaching and tutoring, publishing some of his lectures in "The Theory of Moral Sentiments" in 1759. The material was well received and laid the foundation for the publication of "An Inquiry Into the Nature and Causes of the Wealth of Nations" (1776), which would cement his place in history.

Invisible Hand Theory

"An Inquiry Into the Nature and Causes of the Wealth of Nations" documented the industrial and development in Europe. While critics note that Smith didn't invent many of the ideas that he wrote about, he was the first person to compile and publish them in a format designed to explain them to the average reader of the day. As a result, he is responsible for popularizing many of the ideas that underpin the school of thought that became known as [classical economics](#). (Learn economics principles such as supply and demand, elasticity, utility and more in our tutorial, [Economics Basics](#).)

Other economists built on Smith's work to solidify classical economic theory, which would become the dominant school of economic thought through the [Great Depression](#). (Learn more about the causes of this global economic crisis in [What Caused The Great Depression?](#))

Laissez-faire philosophies, such as minimizing the role of government intervention and taxation in the free markets, and the idea that an "[invisible hand](#)" guides [supply](#) and [demand](#) are among the key ideas Smith's writing is responsible for promoting. These ideas reflect the concept that each person, by looking out for him- or herself, inadvertently helps to create the best outcome for all. "It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest," Smith wrote. (Read about one implementation of Smith's "invisible hand" in [The Rise Of The Modern Investment Bank](#).)

By selling products that people want to buy, the butcher, brewer and baker hope to make money. If they are effective in meeting the needs of their customers, they will enjoy the financial rewards. While they are engaging in their enterprises for the purpose of earning money, they are also providing products that people want. Such a system, Smith argued, creates [wealth](#) not just for the butcher, brewer and baker, but for the nation as whole when that nation is populated with citizens

working productively to better themselves and address their financial needs. Similarly, Smith noted that a man would invest his wealth in the enterprise most likely to help him earn the highest [return](#) for a given level of [risk](#). (Read more in [Risk And Diversification: The Risk-Reward Tradeoff](#).)

Published Philosophy

"The Wealth of Nations" is a massive work consisting of two volumes divided into five books. The ideas it promoted generated international attention and helped to drive the move from land-based wealth to wealth created by assembly-line production methods driven by division of labor. One example Smith cited involved the labor required to make a pin. One man undertaking the 18 steps required to complete the tasks could make but a handful of pins each week, but if the 18 tasks were completed in assembly-line fashion by 10 men, production would jump to thousands of pins per week. (Read more about this concept in [What Are Economies Of Scale?](#))

He applied a similar logic regarding wealth generation and efficiency to British rule over the American colonies. According to his calculations, the cost of maintaining the colonies was simply not worth the [return on investment](#).

Interestingly, while much of the philosophy behind Smith's work is based on self-interest and maximizing return, his first published work, "The Theory of Moral Sentiments", was a treatise about how human communication relies on sympathy. While this may seem to be at odds with his economic views of individuals working to better themselves with no regard for the common good, the idea of an invisible hand that helps everyone through the labor of self-centered individuals offsets this seeming contradiction.

Today, the invisible hand theory is often presented in terms of a natural phenomenon that guides free markets and [capitalism](#) in the direction of efficiency, through supply and demand and competition for scarce resources, rather than as something that results in the well-being of individuals. (Read more about the evolution of our current economic system in [History Of Capitalism](#).)

Still Relevant

The ideas that became associated with Smith not only became the foundation of the classical school of economics, but also gained him a place in history as the father of economics. His work served as the basis for other lines of inquiry into the field of economics, including ideas that built on his work and those that differed. Smith died on July 19, 1790, but the ideas he promoted live on. In 2007, the [Bank of England](#) even placed his image on the £20 note.

For further reading see, [How Influential Economists Changed Our History](#) and [The History Of Economic Thought](#).

by **Lisa Smith**, ([Contact Author](#) | [Biography](#))

**** This article and more are available at Investopedia.com - Your Source for Investing**

Education **