

Adam Smith, Economics, Finance and Geopolitics

by George Friedman - April 14, 2025

Adam Smith defined how we think about free markets. His guiding principle was, famously, the invisible hand – a mystical force or the hand of God, but the idea that the pursuit of individual interests in economic life would inevitably produce an optimized and predictable economy. The theory rested on the assumption that individuals were rational in understanding their needs and thus in their economic actions. Government intervention would, therefore, disrupt the functioning of natural economic intercourse. For Smith, no overarching and or well-intended intervention in the free market could optimize the outcome of the economy; optimization is achieved only through freedom of action. Collectively, individual actions rationalized the system, propelled society forward and, crucially, provided predictability such that the irrational whims of the few had little impact on the whole.

The problem – one that Smith was keenly aware of – was that humans were part of nations, and that economies depended on the viability of nations. The desire of citizens to maximize their wealth drives nations, but wealth is only one dimension of a nation. The internal passions within nations – the differences in geographic regions, cultural values or educational levels – spark tensions within nations that weaken the invisible hand because wealth could be accumulated in such a way that classes might be formed that would use political power to disrupt the free market. But Smith was aware that inequality in economic outcomes could destabilize the nation and thus weaken the economy. He never addressed the problem of how to stabilize a system if the wealth of nations was concentrated in the hands of the few. Nations could be wealthy, but their citizens could be poor. Thus the mixed economy worked with the state manipulating the economy, accepting a disruption of the invisible hand in favor of maintaining the stability of the state.

There was a second problem that Smith was aware of: Economic life, critical though it may be, was only one dimension of the wealth of nations. The other dimension was national security. The individual citizen craves wealth and security, and though they don't want to surrender either, they are in effect the same thing. Wars and lesser conflicts raged throughout Smith's life, as did less violent disagreements. The ability of nations to protect themselves from the predation of other nations was as much a part of the human condition as economic well-being. Indeed, national security was the foundation of the economy and thus of the internal invisible hand. National security was an inevitable intrusion into the free market; economic resources had to be extracted from the economy to build armies that could protect the free market. In turn, the economy was the foundation of national

security because it provided the resources for an armed military, though wealth itself is the true weapon. This was, as Smith recognized, the paradox of the free market. The invisible hand maximized the wealth of nations, but the nation depended on the government to interfere in the free market to guarantee national security and build the wealth of nations by dominating or conquering other countries. As in all theories, reality is an unpleasant presence.

We can apply this to geopolitics. In geopolitics, the primary actors are nations, not individuals, although each nation contains individuals who have different interests with differing outcomes. This creates internal political stresses, powered in part by divergent economic interests. The degree to which the nation manages these political forces contributes to the strength of nations in international relations.

Geopolitics is also governed by an invisible hand. Each nation seeks security and wealth, and each nation uses military and economic weapons to achieve security. In this, each nation has its own interests, and in their pursuit, nations clash and cooperate just as businesses or individuals do. The process is as efficient for the nation as it is for individuals. Individuals' intense pursuit of wealth enhances their security by weakening others but, on the whole, builds the wealth of nations. The competition between nations passes through phases of cooperation and war. There is a fundamental difference in the nature of the pursuit of interest and its agonies, but the principle is the same. Nations can cooperate out of avarice and can cause other nations to scare each other, as individuals do, but the scale and consequences of national fates determine the wealth of nations and the wealth of individuals in those nations.

Just as the economy can best be understood by depersonalizing it, so too can geopolitics, save that there are far more people in an economy than there are in nations in geopolitical systems. This makes international relations more predictable because there are fewer players and interests to model and because their needs and fears are more transparent than those of millions of citizens. But the crucial point is that economics and finance are components of national security, essential but not always at the moment something whose well-being is the priority. In any event, it is predictable.

The model of international economics to which we are accustomed emerged from the Cold War. The economic component benefited Washington. Russia was poor and had lost much more than the United States had in World War II, while the U.S. was rich and further enriched by the war. Military power was important, but economic power was in the hands of the U.S., which shaped its economic national security to gain global power. It used trade relations to rebuild Europe to its own benefit, and in the ensuing proxy battle for the so-called Third World, it took much of the imperial territories

previously held by Europe. It was a powerful tool that was necessitated by the invisible hand of geopolitics and was also predictable.

The end of the Cold War, validated by the outcome of the war in Ukraine, has changed the status quo. U.S. solicitude toward Europe is ending, as is its concern for the Third World. This creates massive unease within the United States; the economic component of the invisible hand had been shaped by the logic of a geopolitical era that is now obsolete. And as geopolitical realities change, so too do economic realities. The decline in concern for economics as a weapon predictably reshapes U.S. economic reality, resulting in political chaos. The economic system depends on rules. Geopolitical shifts change the rules.

Adam Smith was not interested in individual personalities, and many great businessmen were strange and unpredictable. They flourished in chaotic times. So too, politicians at geopolitical junctures seem to violate norms, since the old norms are also outmoded.

Smith's notion of the invisible hand is applicable not only to economics but also to geopolitics, with times of profound change generating discomfort and rage between and within nations. Smith's model works for economics within nations and takes a different form than economics between nations. But the principles of interest and the invisible hand remain useful guides.

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