

[Vince Cable is wrong on Adam Smith](#) [1]

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Business Secretary Vince Cable is wrong on capitalism and wrong on Adam Smith.

He told the LibDem conference: 'Capitalism takes no prisoners and kills competition where it can.' He even claimed to have the backing of Adam Smith in that remark. Unfortunately, we have a business secretary who doesn't understand business and who misinterprets the founder of modern economics too.

It is not capitalism that kills competition. It is regulation, and regulated capitalism. Certainly, businesses would love to squeeze out their competitors and have the market all to themselves. That is of course why they innovate, trying to improve their product or produce it more cheaply, so as to steal a march on other producers. But then their competitors are free to respond with improvements of their own, and capture more of the market for themselves. That kind of competition is welcome, and good for us consumers.

The trouble starts when businesses recruit the power of governments to help them keep out the competition. Often it is a demand for legislation to 'keep out the cowboys' or to 'raise standards'. But it always means reducing the threat of competition. Big businesses in particular are content to live with regulation because they can afford it more easily than the smaller, often more innovative, firms that threaten to take business from them. Large firms also quite successfully lobby for government support that makes them even stronger against their smaller opponents.

Adam Smith was perfectly clear. Businesspeople would love to rig the market in their favour. But it is only the power of governments that enables them to do this. Smith famously wrote that when people of the same trade meet together, the talk soon turns into 'a conspiracy against the public'. But it seems that many people, including Vince Cable, have not read the following paragraphs, which explain that it is regulation that brings on these cartel meetings and makes the conspiracy stick.

Where free competition reigns, businesses cannot keep out competitors. Government policy should focus on increasing competition, ensuring that trade is honest ? and on reducing other regulation.

I shall be sending Vince Cable a copy of my IEA book *Adam Smith ? A Primer*. He seems to need it.

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