

The wealth of nations

[Life](#)



The Wealth of Nations was published 9 March 1776, during the Scottish Enlightenment and the Scottish Agricultural Revolution. It influenced a number of authors and economists, as well as governments and organizations. Synopsis I: Of the Causes of Improvement in the productive Powers of Labour Of the Division of Labour: Division of labour has caused a greater increase in production than any other factor. This diversification is greatest for nations with more industry and improvement, and is responsible for " universal opulence" in those countries.

Agriculture is less amenable than industry to division of labour; hence, rich nations are not so far ahead of poor nations in agriculture as in industry. Of the Principle which gives Occasion to the Division of Labour: Division of labour arises not from innate wisdom, but from humans' propensity to barter. The apparent difference in natural talents between people is a result of specialization, rather than any innate cause. That the Division of Labour is Limited by the Extent of the Market: Limited opportunity for exchange discourages division of labour.

Because " water-carriage" extends the market, division of labour, with its improvements, comes earliest to cities near waterways. Civilization began around the highly navigable Mediterranean Sea... Of the Origin and Use of Money: With division of labour, the producer of one's own labour can fill only a small part of one's needs. Different commodities have served as a common medium of exchange, but all nations have finally settled on metals, which are durable and divisible, for this purpose. Before coinage, people had to weigh and assay with each exchange, or risk " the grossest frauds and impositions. Thus nations began stamping metal, on one side only, to

ascertain purity, or on all sides, to stipulate purity and amount. The quantity of real metal in coins has diminished, due to the "avarice and injustice of princes and sovereign states," enabling them to pay their debts in appearance only, and to the defraudment of creditors. Of the Real and Nominal Price of Commodities, or of their Price in Labour, and their Price in Money: Smith gives two conflicting definitions of the relative value of a commodity.

Adam Smith, "What everything really costs to the man, who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. That this is really the foundation of the exchangeable value of all things, excepting those which cannot be increased by human industry, is a doctrine of the utmost importance in political economy." The value of any commodity ... is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities.

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Of the Component Parts of the Price of Commodities: Smith argues that the price of any product reflects wages, rent of land and "... profit of stock," which compensates the capitalist for risking his resources. Of the Natural and Market Price of Commodities: "When the quantity of any commodity which is brought to market falls short of the effectual demand, all those who are willing to pay... cannot be supplied with the quantity which they want... Some of them will be willing to give more. A competition will begin among

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them, and the market price will rise... When the quantity brought to market exceeds the effectual demand, it cannot be all sold to those who are willing to pay the whole value of the rent, wages and profit, which must be paid in order to bring it thither... The market price will sink... " When demand exceeds supply, the price goes up. When the supply exceeds demand, the price goes down.

Of the Wages of Labour: Smith describes how the wages of labour are dictated primarily by the competition among laborers and masters. When laborers bid against one another for limited opportunities for employment, the wages of labour collectively fall, whereas when employers compete against one another for limited supplies of labour, the wages of labour collectively rise. However, this process of competition is often circumvented by combinations among laborers and among masters.

When laborers combine and no longer bid against one another, their wages rise, whereas when masters combine, wages fall. Of the Profits of Stock: Smith uses interest rates as an indicator of the profits of stock. This is because interest can only be paid with the profits of stock, and so creditors will be able to raise rates in proportion to the increase or decrease of the profits of their debtors. Smith argues that the profits of stock are inversely proportional to the wages of labour, because as more money is spent compensating labour, there is less remaining for personal profit.

It follows that, in societies where competition among laborers is greatest relative to competition among employers, profits will be much higher. Smith illustrates this by comparing interest rates in England and Scotland. In

England, government laws against usury had kept maximum interest rates very low, but even the maximum rate was believed to be higher than the rate at which money was usually loaned. In Scotland, however, interest rates are much higher. This is the result of a greater proportion of capitalists in England, which offsets some competition among laborers and raises wages.

Of Wages and Profit in the Different Employments of Labour and Stock:

Smith repeatedly attacks groups of politically aligned individuals who attempt to use their collective influence to manipulate the government into doing their bidding. At the time, these were referred to as "factions," but are now more commonly called "special interests," a term that can comprise international bankers, corporate conglomerations, outright oligopolies, trade unions and other groups.

Indeed, Smith had a particular distrust of the tradesman class. He felt that the members of this class, especially acting together within the guilds they want to form, could constitute a power block and manipulate the state into regulating for special interests against the general interest: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, 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." Smith also argues against

government subsidies of certain trades, because this will draw many more people to the trade than what would otherwise be normal, collectively lowering their wages.

Motivates an understanding of the idea of feudalism. Of the Rent of the Land: Rent, considered as the price paid for the use of land, is naturally the highest the tenant can afford in the actual circumstances of the land. In adjusting lease terms, the landlord endeavors to leave him no greater share of the produce than what is sufficient to keep up the stock from which he furnishes the seed, pays the labour, and purchases and maintains the cattle and other instruments of husbandry, together with the ordinary profits of farming stock in the neighborhood.

This is evidently the smallest share with which the tenant can content himself without being a loser, and the landlord seldom means to leave him anymore. Whatever part of the produce, or, what is the same thing, whatever part of its price, is over and above this share, he naturally endeavors to reserve to himself as the rent of his land, which is evidently the highest the tenant can afford to pay in the actual circumstances of the land.

II: Of the Nature, Accumulation, and Employment of Stock Of the Division of Stock: " When the stock which a man possesses is no more than sufficient to maintain him for a few days or a few weeks, he seldom thinks of deriving any revenue from it. He consumes it as sparingly as he can, and endeavors by his labour to acquire something which may supply its place before it be consumed altogether. His revenue is, in this case, derived from his labour only.

This is the state of the greater part of the laboring poor in all countries. " "

But when he possesses stock sufficient to maintain him for months or years, he naturally endeavors to derive revenue from the greater part of it; reserving only so much for his immediate consumption as may maintain him till this revenue begins to come in. His whole stock, therefore, is distinguished into two parts. That part which, he expects, is to afford him this revenue, is called his capital. Of Money Considered as a particular Branch of the General Stock of the Society:

" That the price of the greater part of commodities resolves itself into three parts, of which one pays the wages of the labour, another the profits of the stock, and a third the rent of the land which had been employed in producing and bringing them to market: that there are, indeed, some commodities of which the price is made up of two of those parts only, the wages of labour, and the profits of stock: and a very few in which it consists altogether in one, the wages of labour: but that the price of every commodity necessarily resolves itself into some one, or other, or all of these three parts; every part of it which goes neither to rent nor to wages, being necessarily profit to somebody. " Of the Accumulation of Capital, or of Productive and Unproductive Labour: " One sort of labour adds to the value of the subject upon which it is bestowed: there is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive labour.

Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance and of his master's profit. The labour of a menial servant, on the contrary, adds to the

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value of nothing. " Of Stock Lent at Interest: " The stock which is lent at interest is always considered as a capital by the lender. He expects that in due time it is to be restored to him, and that in the meantime the borrower is to pay him a certain annual rent for the use of it. The borrower may use it either as a capital, or as a stock reserved for immediate consumption. If he uses it as a capital, he employs it in the maintenance of productive labourers, who reproduce the value with a profit.

He can, in this case, both restore the capital and pay the interest without alienating or encroaching upon any other source of revenue. If he uses it as a stock reserved for immediate consumption, he acts the part of a prodigal, and dissipates in the maintenance of the idle what was destined for the support of the industrious. He can, in this case, neither restore the capital nor pay the interest without either alienating or encroaching upon some other source of revenue, such as the property or the rent of land. " The stock which is lent at interest is, no doubt, occasionally employed in both these ways, but in the former much more frequently than in the latter. III: Of the different Progress of Opulence in different Nations Of the Natural Progress of Opulence:

" The great commerce of every civilized society is that carried on between the inhabitants of the town and those of the country. It consists in the exchange of crude for manufactured produce, either immediately, or by the intervention of money, or of some sort of paper which represents money. The country supplies the town with the means of subsistence and the materials of manufacture. The town repays this supply by sending back a part of the manufactured produce to the inhabitants of the country. The

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town, in which there neither is nor can be any reproduction of substances, may very properly be said to gain its whole wealth and subsistence from the country. We must not, however, upon this account, imagine that the gain of the town is the loss of the country. The gains of both are mutual and reciprocal, and the division of labour is in this, as in all other cases, advantageous to all the different persons employed in the various occupations into which it is subdivided. " Of the Discouragement of Agriculture: " Of the Discouragement of Agriculture in the Ancient State of Europe after the fall of the Roman Empire". " When the German and Scythian nations overran the western provinces of the Roman Empire, the confusions which followed so great a revolution lasted for several centuries.

The rapine and violence which the barbarians exercised against the ancient inhabitants interrupted the commerce between the towns and the country. The towns were deserted, and the country was left uncultivated, and the western provinces of Europe, which had enjoyed a considerable degree of opulence under the Roman Empire, sunk into the lowest state of poverty and barbarism. During the continuance of those confusions, the chiefs and principal leaders of those nations acquired or usurped to themselves the greater part of the lands of those countries. A great part of them was uncultivated; but no part of them, whether cultivated or uncultivated, was left without a proprietor. All of them were engrossed, and the greater part by a few great proprietors.

This original engrossing of uncultivated lands, though a great, might have been but a transitory evil. They might soon have been divided again, and broke into small parcels either by succession or by alienation. The law of <https://assignbuster.com/the-wealth-of-nations/>

primogeniture hindered them from being divided by succession: the introduction of entails prevented their being broke into small parcels by alienation. " Of the Rise and Progress of Cities and Towns, after the fall of the Roman Empire: " The inhabitants of cities and towns were, after the fall of the Roman empire, not more favored than those of the country. They consisted, indeed, of a very different order of people from the first inhabitants of the ancient republics of Greece and Italy.

These last were composed chiefly of the proprietors of lands, among whom the public territory was originally divided, and who found it convenient to build their houses in the neighborhood of one another, and to surround them with a wall, for the sake of common defense. After the fall of the Roman Empire, on the contrary, the proprietors of land seem generally to have lived in fortified castles on their own estates, and in the midst of their own tenants and dependants. The towns were chiefly inhabited by tradesmen and mechanics, which seem in those days to have been of servile, or very nearly of servile condition. The privileges which we find granted by ancient charters to the inhabitants of some of the principal towns in Europe sufficiently show what they were before those grants.

The people to whom it is granted as a privilege that they might give away their own daughters in marriage without the consent of their lord, that upon their death their own children, and not their lord, should succeed to their goods, and that they might dispose of their own effects by will, must, before those grants, have been either altogether or very nearly in the same state of villanage with the occupiers of land in the country. " How the Commerce of the Towns Contributed to the Improvement of the Country: Smith often
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harshly criticized those who act purely out of self-interest and greed, and warns that, "... for us, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind. " IV: Of Systems of political Economy

Of the Principle of the Commercial or Mercantile System: Specifically, The Wealth of Nations attacks, inter alia, two major tenets of mercantilism: 1. The idea that protectionist tariffs serve the economic interests of a nation (or indeed any purpose whatsoever) and 2. The idea that large reserve of gold bullion or other precious metals are necessary for a country's economic success. Of the extraordinary Restraints: " Of the extraordinary Restraints upon the Importation of Goods of almost all Kinds, from those Countries with which the Balance is supposed to be Disadvantageous". Of Drawbacks: Merchants and manufacturers are not contented with the monopoly of the home market, but desire likewise the most extensive foreign sale for their goods.

Of Treaties of Commerce: When a nation binds itself by treaty either to permit the entry of certain goods from one foreign country which it prohibits from all others, or to exempt the goods of one country from duties to which it subjects those of all others, the country, or at least the merchants and manufacturers of the country, whose commerce is so favored, must necessarily derive great advantage from the treaty. Those merchants and manufacturers enjoy a sort of monopoly in the country which is so indulgent to them. That country becomes a market both more extensive and more advantageous for their goods: more extensive, because the goods of other nations being either excluded or subjected to heavier duties, it takes off a

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greater quantity of theirs: more advantageous, because the merchants of the favored country, enjoying a sort of monopoly there, will often sell their goods for a better price than if exposed to the free competition of all other nations. "

Of Colonies: Of the Motives for establishing new Colonies: The interest which occasioned the first settlement of the different European colonies in America and the West Indies was not altogether as plain and distinct as that which directed the establishment of those of ancient Greece and Rome. Causes of Prosperity of new Colonies: The colonists carry out with them knowledge of agriculture and of other useful arts superior to what can grow up of its own accord in the course of many centuries among savage and barbarous nations.

They carry out with them, too, the habit of subordination, some notion of the regular government which takes place in their own country, of the system of laws which supports it, and of a regular administration of justice; and they naturally establish something of the same kind in the new settlement. Of the Agricultural Systems: " Of the Agricultural Systems, or of those Systems of Political Economy, which Represent the Produce of Land, as either the Sole or the Principal, Source of the Revenue and Wealth of Every Country". V: Of the Revenue of the Sovereign or Commonwealth Smith postulated four " maxims" of taxation: proportionality, transparency, convenience, and efficiency. Of the Expenses of the Sovereign or Commonwealth: On taxation Smith wrote, " The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their

respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.

The expense of government to the individuals of a great nation is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation. " Of the Sources of the General or Public Revenue of the Society: In his discussion of taxes " The necessaries of life occasion the great expense of the poor. " They find it difficult to get food, and the greater part of their little revenue is spent in getting it. The luxuries and vanities of life occasion the principal expense of the rich, and a magnificent house embellishes and sets off to the best advantage all the other luxuries and vanities which they possess.

A tax upon house-rents, therefore, would in general fall heaviest upon the rich; and in this sort of inequality there would not, perhaps, be anything very unreasonable. It is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion. " Of War and Public Debts: "... when war comes politicians are both unwilling and unable to increase their tax revenue in proportion to the increase of their expense. They are unwilling for fear of offending the people, who, by so great and so sudden an increase of taxes, would soon be disgusted with the war ... The facility of borrowing delivers them from the embarrassment ...

By means of borrowing they are enabled, with a very moderate increase of taxes, to raise, from year to year, money sufficient for carrying on the war, and by the practice of perpetually funding they are enabled, with the smallest possible increase of taxes [to pay the interest on the debt], to raise annually the largest possible sum of money [to fund the war ... The return of peace, indeed, seldom relieves them from the greater part of the taxes imposed during the war. These are mortgaged for the interest of the debt contracted in order to carry it on. " Smith then goes on to say that even if money was set aside from future revenues to pay for the debts of war, it seldom actually gets used to pay down the debt. Politicians are inclined to spend the money on some other scheme that will win the favor of their constituents. Hence, interest payments rise and war debts continue to grow larger, well beyond the end of the war. Impact-- United States

James Madison, in a speech given in Congress on 2 February 1791, cited *The Wealth of Nations* in opposing a national bank: " The principal disadvantages consisted in, 1st. banishing the precious metals, by substituting another medium to perform their office: This effect was inevitable. It was admitted by the most enlightened patrons of banks, particularly by Smith on the *Wealth of Nations*". Thomas Jefferson, writing to John Novell on 14 June 1807, claimed that on " the subjects of money & commerce, Smith's *Wealth of Nations* is the best book to be read, unless Say's *Political Economy* can be had, which treats the same subject on the same principles, but in a shorter compass & more lucid manner".

Two views of the " *Wealth of Nations*" The " *Wealth of Nations*" is therefore inhomogeneous and consists of the earlier elements of an individualistic
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strain in the tradition of Aristotle, Puffendorf and Hutcheson, Smith's teacher, – elements compatible with a neoclassical theory – and the classical theory Smith learned in France. Smith's classical message is what he states at the very beginning: the two ways to create the "Wealth of Nations". First, make productive labour even more productive by enhancing markets to deepen the division of labour (moving the neoclassical production curve to the right); and second, use more labour productively instead of unproductively, i. e. produce more goods and services that are inputs to the next economic reproduction circle, as opposed to goods used up in final consumption. In the words of Adam Smith: "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes ... This produce ... bears a greater or smaller proportion to the number of those who are to consume it ... But this proportion must in every nation be regulated by two different circumstances; First, by the skill, dexterity, and judgment with which its labour is generally applied; and, Secondly, by the proportion between the numbers of those who are employed in useful labour, and that of those who are not so employed.