Adam smith – the wealth of nations

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Smith begins his book by stating that the division of labor has resulted in the greatest improvements in industry. He notes that while division of labor can be see in most industries, it is much more noticeable in the big ones. He then goes on to use the example of a sewing pin manufacturer. He notes that while any of the individuals in the plant might be able to make perhaps one pin in a day by themselves, ten of them if they divide up the labor, they can make thousands in a day. B1C1

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Smith states that there are three main contributors to why the division of labor works as well as it does. The first is that when people spend their entire lives doing one specific focused task, they become very good at it, and can complete that particular task faster then anybody who tries to master other skills as well. The second is the loss in time of switching tasks. This does not just mean the time it takes to drop a hammer and pick up a screwdriver, but also the mental adjustment that has to take place in order to be working 100% at that task. The third is when people are focused on a simple task, they are more apt to discover a better way of doing that task. Smith states that whenever he walks into a factory, he is constantly shown contraptions developed by workers to save time and labor. As a small addition, Smith also states that the division of labor in philosophy and science will yield more efficient methods of doing things. B1C1

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He then makes a note that in a well off society, when more people have produced more goods, they will as a whole be a richer society. He then concludes this chapter by speaking about how much labor and industry must be employed to furnish a worker with a simple woolen coat, and how even though this is a simple dress, it is really almost as complicated as a prince's coat. B1C2

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This chapter opens with the argument that the Division of Labour is not the consequence of somebody's wisdom, but results in the propensity of humans to to exchange goods. Smith finds no evidence of any animals in nature (except for humans) where any bartering goes on. Rather animals if they want something must beg to both humans and other animals if they want something that somebody else has. (That or outright take it). The difference between humans and animals is that animals can exist independently in the wild, while humans need assistance from others, but can not expect this assistance out of good will alone. He then states that we do not get meat from a Butcher because we need the meat, but because the butcher is looking out for his own self-interest and wants what we have in return. B1C5

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the labor theory of value:

" Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniencies, and amusements of human life. But after the division of labour has once thoroughly taken place, it is but a very small part of these with which a man's own labour can supply him. The far greater part of them he must derive from the labour of other people, and he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase. The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, 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. The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it."

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To paraphrase Smith, and the first part of this Chapter, when demand exceeds supply, the price goes up. When the supply exceeds demand, the price goes down.

He then goes on to comment on the different avenues that people can take to generate a larger profit then normal. Some of those include: finding a commodity that few other have that allows for a high profit, and being able to keep that secret; Finding a way to produce a unique commodity (The dyer who discovers a unique dye). He also states that the former usually has a short lifespan of high profitability, and the latter has a longer. He also notes that a monopoly is essentially the same as the dyers trade secret, and can thus lead to high profitability for a long time by keeping the supply below the effectual demand.