

# Development and importance of adam smiths economic ideas economics essay

[Economics](#)



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## **Introduction**

Western Economic thinking was greatly impacted from Adam Smith's publication of *An Inquiry into the Nature and Causes of the Wealth of Nations*. The theories presented from Smith's publication led to a new vision of economic freedom, such was the contribution on economic thought that Adam Smith was dubbed as the "father of modern economics". Smith expanded on the advocated idea of *laissez-faire* by Francois Quesnay, a French economist that advocated this idea in connection to the French government's farming policies, except Adam applied this idea in the *Wealth of Nations* to a nation's entire economy. The theories suggested by Smith were revolutionizing since during his time most of Europe followed the doctrines of mercantilism. This ideology believed that a nation's wealth lies in money, gold, and silver, therefore, governments should try their best build up the supplies of these precious metals. Following this doctrine,

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governments enacted laws with the purpose of increasing their treasures with the supplies of these precious metals, thus limiting the economic activities of its colonial states by restricting the exports of silver and gold. Smith argued that a wealth of nation increased from the production of goods and services unlike the collecting of gold and silver. Smith proposed that to measure the wealth of a nation one must measure the amounts of goods and services available for the use of each of its citizens. The ideas proposed by Adam Smith reshaped the way in which businesses functioned and the methods to which governments contributed to maintain stability over businesses. Many of his ideas have been used in modern day governments. The Wealth of Nations dealt with many subjects other than laissez-faire some of which include labor, production, taxation, income distribution, and rent. This foundation that smith laid out would further assist economists to come in developing their own theories in each of the fields discussed in The Wealth of Nations. The ideas presented are of great interest because they are the root of most of the economic theories or laws that are being followed in our modern age. Most economic researchers assert that the " Smithian Revolution" was a direct attack on mercantilism which changed the preexisting thoughts and understandings of the source of wealth a nation obtains and what was needed to promote the increase in affluence (cited in Gates & Steane, 2007). Smith also conducted a social analysis, since he investigated how various classes of citizens interact, evolve, and apposite their means of income within the context of society.

## **Development and Importance of Adam Smith's Economic Ideas**

During Adam Smith's time mercantile doctrines played a significant role in the governance of nations and the way businesses were conducted. During this time the common man was virtually earning the same year after year and constantly guarding against difficult factors that contributed to extreme poverty and low living standards. This era in time was known for its premature deaths, disease, famine, war and subsistence in wages. Many of the common men were just barely surviving and struggled make ends meet with the simple wages that were being earned. There were just a fortunate few in that time which included aristocrats and rulers that lived leisurely, even though they were quite below of what modern standard defines as leisure (Skousen, 2009). The year that extended to the common man's hopes was that in 1776, a period in history most commonly known as the Age of Enlightenment. It was at this time that Adam Smith had published his revolutionizing work, *An Inquiry into the Nature and Causes of the Wealth Nations*. This work was not for the aristocratic rulers; instead it was liberation for the common man, the average citizens of a nation who were continuously abused for centuries. The Scottish philosopher directly pointed to the mercantile system as being the cause of the problems nations and citizens in a nation were facing. He denounced high tariffs and other trade restrictions implemented by nations, especially on their colonies. According to Adam Smith mercantilist policies only seemed imitate real prosperity with only benefiting the producers of the product and the monopolists. However, it did not provide any benefit to the consumer making the nation's economy shortsighted and "antigrowth" (Skousen, 2009). Smith asserted that the real

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wealth of a nation did not lie in the accumulation of precious metals like gold or silver. Instead the real wealth was the nation's ability to produce goods and services along with the trade that they establish domestically and internationally. Smith went on to contemplate that how to measure wealth. He concluded that wealth is measured according to how the citizens of the nation are housed, clothed, and fed, along with other necessities and conveniences of life. He also deduced the way in which production and exchange can be maximized by allowing economic freedom to the masses. A continuous theme recognized throughout his work in *The Wealth of Nation* is "natural liberty". In his model of natural liberty there was no longer a conflict of interests that resulted in a harmony of interests instead. Under these right he proposed: the right to buy goods from any source which included even foreign products without the restrictions of tariffs and import quotas, the right to work under any occupation a person pleases, and the abolishment of policies that forced laborers to obtain government permissions to move from one location and another, even within the same country. The model of competitive free enterprise that Adam Smith laid out had the greatest importance to which economic reformation came about. *Laaissez-faire* aided Smith in developing the concept even more to incorporate into his *The Wealth of Nations*; he implemented the idea for the prosperity of the nation as a whole. Smith put into the center of economics the systematic analysis of the behavior of individuals to pursue their self interests under the conditions of competition which he proposed as the "invisible hand" (Stigler, 1976). The main importance that Smith's theories brought about was the end of mercantilism and the beginning of an era of

capitalism. He initiated the start of an economy that allows individuals to pursue their interests under the conditions set by natural liberties and competition; this would develop a self sustaining and prosperous economic system (Gates & Steane, 2007).

## **Unsuccessful Implementation of Adam Smith's Economic Ideas**

Adam Smith's economic ideas have been implemented successful in the modern world by further editing some of his ideas. However, there have been times in history in which his ideas were taken to an extreme that have brought about decline in prosperity and society as a whole. An example of this is seen during the Industrial Revolution that occurred in Great Britain. Extreme capitalists stressed on Smith's idea of laissez-faire ignoring the warnings predicted by Smith about the dangers of monopoly. These extreme capitalists resisted the government's efforts to enact a social legislation. It was during this era that child labor had become so common among markets. There were no labor laws put in place or child labor laws which forced underage children to work in desolate conditions like poorly ventilated factories and unhygienic work environments; some were so extreme that they shackled children to manufacturing machines (Heilbroner, 1953). Another example of the extreme capitalistic ideas that devastated the masses and brought down the factor of competition from Adam Smith was the Gilded Age in America just after the Civil War in which America was working towards reconstruction and jumping ahead in the road to industrialization. During this age there was a great influx of economic growth throughout the country. It also produced some of the ultra-rich men of that

time. Some of them include: John D. Rockefeller, Andrew Carnegie, Cornelius Vanderbilt, J. P. Morgan, and many others. These "captains of industry" extremely practices capitalism and the policies of laissez-faire that they were no regulated by the government and did everything in their power to accumulate as much as wealth possible. These industrialists were dubbed with the title of "robber barons". They turned to monopolizing their businesses in order to decrease competition and assimilate prices in the markets that would benefit them. Andrew Carnegie is a great example of this. He built his steel enterprise on the tactic known as 'vertical integration'; he vertically integrated his production processes by buying out companies that produced coal, iron ore, and etc to produce his steel, this even included the companies that shipped the steel and sold it. A strong oppose of some of Adam Smith's theories was John Maynard Keynes. Keynes believed that government should play a key role in the regulating of businesses rather than leaving the market to itself, especially during the times of economic crisis. Keynes believed the government should solve problems of markets in the short run that sit and wait for markets to correct themselves the way in which Adam Smith described.

## **Learning from Past Mistakes**

Modern economists have a lot of area to study and find out the issues that were faced in the history of idea which was given by Adam Smith. Today, economy analysts have reached this area where they can disclose the wrong actions taken by executers that time which didn't help the proper execution of economic policies and laws given by Adam Smith. If we start saying this, idea of capitalism had not been properly implemented the way it should

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have been, it will not be wrong. Policy executers kept the idea on the initial phase and all of his ideas straight to the Monopolistic strategies where capitalism was being focused but division and further applications of capitalism wasn't being executed. Hence, it was the mistake in the history. Another, issue faced by executing the idea in improper dimension was balance of Trade and Market Free Control. Executers did open the market and promoted trade but it was all in one dimension that can be called " Empowering Free Control of Market under the Control of government". He said " Wealth doesn't consist in money, or in gold and silver, but in what money purchases, and is valuable only for purchasing" (Smith, Book IV). As opposed to the emphasis on agriculture by the physiocrats, Smith emphasized manufacture. According to the idea, wealth of nations consists of the goods which they can produce and trade. This condition can be accomplished only by allowing production and commerce to develop freely, without controls. Therefore, this empowerment was not up to mark that was mentioned in the idea. Today's economists have minimized the risk of government control on trade and now European countries are following free trade and open market economy, hence their economy is being seen with a majestic boom. Modern economists can learn how to make a road plan for government economic strategies which are not affecting the market control, trade system, monopolistic activities and division of capitalism. In market, monopoly always creates barriers on other business entities that directly affects the demand and supply, hence prices as well. Another key economic policy " labor value" that was ignored that modern economists can learn now. As labor is the only real standard of value. Most of the economists



didn't agree with his idea that time but later on Karl Marx expanded Adam's idea of labor value and included in his theory of " Surplus Value". Adam Smith's suggested ideas for protective measures for workers, farmers, consumers and society as a whole the abolition of slavery and the control of monopolies were ignored, from which modern economists and economy policy executers can learn a lot. Another mistake that can be a good learning point for modern economists was the postponed or delayed replacement of mercantilism with the doctrine of laissez faire. Modern economists can study the idea and make a road map for the betterment in economy growth by focusing on all of those mistakes and keeping Adam's proposed economic agenda for the wealth of nations that most of the world's developed countries are strictly following and executing today.

## **Conclusion**

Adam Smith and his philosophical ideas helped to shape the West's modern economic thought with the ideas of free market trade and taking away the concept of mercantilism. He established the grounds upon the market today are operating and the ways businesses and individuals go about their daily life of accumulating wealth from income. Smith's revolutionizing ideas allowed the common man to come out from economic depression by allowing opportunities to accumulate wealth. He stressed the ideas of self assessment and preference for people to buy, work, and live as they please. Even though the implementation of Smith's theories have brought extremes in society by allowing monopolies to form or the idea of communism to develop, they still aided developing countries to come out from economic depression and discrimination. The colonies that were freed in history from

their monarchy's rule led ways to economic prosperity. Today, most Western developed countries like United States and Great Britain founded their economic reforms on the basis of Adam Smith's ideologies.