

## ADAM SMITH

## The Wealth of Nations, 1776

*An Inquiry into the Nature and Causes of the Wealth of Nations* might justly be called the bible of free-market capitalism. Written in 1776 in the context of the British (and European) debate over the proper role of government in the economy, Smith's work takes aim at *mercantilism*, or government supervision of the economy. Mercantilists believed that national economies required government assistance and direction to prosper.

Smith argues that free trade will produce greater wealth than mercantilist trade and that free markets allocate resources more efficiently than the government. His notion of *laissez-faire* (literally "let do") capitalism assumes neither that capitalists are virtuous nor that governments should absent themselves entirely from the economy. However, Smith does believe that the greed of capitalists generally negates itself and produces results that are advantageous to, but unimagined by, the individual. "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner," Smith writes, "but from their regard of their own interest. We address ourselves not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantage."<sup>1</sup> Each person seeks to maximize his or her own gain, thereby creating an efficient market in which the cost of goods is instantly adjusted to exploit changes in supply and demand, while the market provides what is needed at the price people are willing to pay "as if by an invisible hand."

According to Smith, what is the relationship between money and industry, and which is more important? What would Smith say to a farmer or manufacturer who wanted to institute tariffs or quotas to limit the number of cheaper imports entering the country and to minimize competition? What would he say to a government official who wanted to protect an important domestic industry? What would he say to a worker who complained about low wages or boring work? What would Smith think about a "postindustrial" or "service" economy in which few workers actually make products? What would he think of a prosperous country that imported more than it exported?

THINKING HISTORICALLY

*The Wealth of Nations* was written in defense of free capitalism at a moment when the industrial revolution was just beginning. Some elements

<sup>1</sup> Book I, chapter 2.

Source: Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indianapolis: Liberty Fund, 1981, a reprint of the Oxford University Press edition of 1976), 1:13-15, 31, 47, 73-74, 449-50, 455-57.

of Smith's writing suggest a preindustrial world, as in the quotation about the butcher, brewer, and baker mentioned earlier. Still, Smith was aware how new industrial methods were transforming age-old labor relations and manufacturing processes. In some respects, Smith recognized that capitalism could create wealth, not just redistribute it, because he appreciated the potential of industrial technology.

As you read this selection, note when Smith is discussing capitalism, the economic system, and the power of the new industrial technology. In his discussion of the division of labor, what relationship does Smith see between the development of a capitalistic market and the rise of industrial technology? To what extent could the benefits that Smith attributes to a free market be attributed to the new system of industrial production?

## Book I

*Of the Causes of Improvement in the Productive Powers of Labour, and of the Order According to Which Its Produce Is Naturally Distributed among the Different Ranks of the People*

### *Chapter I: Of the Division of Labour*

The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour.

The effects of the division of labour, in the general business of society, will be more easily understood by considering in what manner it operates in some particular manufactures. . . .

To take an example, therefore, from a very trifling manufacture; but one in which the division of labour has been very often taken notice of, the trade of the pin-maker; a workman not educated to this business (which the division of labour has rendered a distinct trade), nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labour has probably given occasion), could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which,

in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them. I have seen a small manufactory of this kind where ten men only were employed, and where some of them consequently performed two or three distinct operations. But though they were very poor, and therefore but imperfectly accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins a day. There are in a pound upwards of four thousand pins of a middle size. Those ten persons, therefore, could make among them upwards of forty-eight thousand pins in a day. Each person, therefore, making a small part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day; that is, certainly, not the two hundred and fortieth, perhaps not the four thousand eight hundredth part of what they are at present capable of performing, in consequence of a proper division and combination of their different operations.

In every other art and manufacture, the effects of the division of labour are similar to what they are in this very trifling one; though in many of them, the labour can neither be so much subdivided, nor reduced to so great a simplicity of operation. . . .

### *Chapter 3: That the Division of Labour Is Limited by the Extent of the Market*

As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market. Where the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for.

There are some sorts of industry, even of the lowest kind, which can be carried on nowhere but in a great town. A porter, for example, can find employment and subsistence in no other place. A village is by much too narrow a sphere for him. . . .

### *Chapter 5: Of the Real and Nominal Price of Commodities, or Their Price in Labour, and Their Price in Money*

Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life. But after the division of labour has once thoroughly taken place, it is

... 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. . . .

### *Chapter 7: 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 the whole value of the rent, wages, and profit, which must be paid in order to bring it thither, cannot be supplied with the quantity which they want. Rather than want<sup>2</sup> it altogether, some of them will be willing to give more. A competition will immediately begin among them, and the market price will rise more or less above the natural price, according as either the greatness of the deficiency, or the wealth and wanton luxury of the competitors, happen to animate more or less the eagerness of the competition. Among competitors of equal wealth and luxury the same deficiency will generally occasion a more or less eager competition, according as the acquisition of the commodity happens to be of more or less importance to them. Hence the exorbitant price of the necessaries of life during the blockade of a town or in a famine.

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. Some part must be sold to those who are willing to pay less, and the low price which they give for it must reduce the price of the whole. The market price will sink more or less below the natural price, according as the greatness of the excess increases more or less the competition of the sellers, or according as it happens to be more or less important to them to get immediately rid of the commodity. The same excess in the importation of perishables will occasion a much greater competition than in that of durable commodities; in the importation of oranges, for example, than in that of old iron.

When the quantity brought to market is just sufficient to supply the effectual demand, and no more, the market price naturally comes to be either exactly, or as nearly as can be judged of, the same with the natural price. The whole quantity upon hand can be disposed of for this price,

<sup>2</sup> Be without it. [Ed.]

and cannot be disposed of for more. The competition of the different dealers obliges them all to accept of this price, but does not oblige them to accept of less.

The quantity of every commodity brought to market naturally adjusts itself to the effectual demand. It is the interest of all those who employ their land, labour, or stock, in bringing any commodity to market, that the quantity never should exceed the effectual demand; and it is the interest of all other people that it never should fall short of that demand.

## Book IV

### Of Systems of Political Economy

#### *Chapter 1: Of the Principle of the Commercial or Mercantile System*

. . . I thought it necessary, though at the hazard of being tedious, to examine at full length this popular notion that wealth consists in money or in gold and silver. Money in common language, as I have already observed, frequently signifies wealth, and this ambiguity of expression has rendered this popular notion so familiar to us that even they who are convinced of its absurdity are very apt to forget their own principles and in the course of their reasonings to take it for granted as a certain and undeniable truth. Some of the best English writers upon commerce set out with observing that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all different kinds. In the course of their reasonings, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce. . . .

#### *Chapter 2: Of Restraints upon the Importation from Foreign Countries of Such Goods as Can Be Produced at Home*

. . . The produce of industry is what it adds to the subject or material upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit that any man employs a capital in the support of industry; and he will always, therefore, endeavour to employ it in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods.

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry; or rather is precisely the same thing with that exchangeable value. As every

individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was not part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

To give the monopoly of the home market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.

What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us

with a commodity cheaper than we ourselves can make it, better buy of them with some part of the produce of our own industry employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished, no more than that of the abovementioned artificers; but only left to find out the way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage when it is thus directed towards an object which it can buy cheaper than it can make. . . .

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