

ECONOMICS

Adam Smith

An Inquiry into the nature and Causes of THE WEALTH OF NATIONS, 1776

BOOK I

DIVISION OF LABOUR

"The greatest improvement in the productive powers of labour ... seem to have been the effects of the division of labour." (p5)

ORIGIN AND USE OF MONEY

"When the division of labour has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging 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. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society." (p.24)

- Certain commodities that are desirable to most people become standards (cattle, salt, shells, cigarettes, etc.)
- Metal turns out to be most convenient, because it is durable
- Metal is being stamped to vouch for quality and weight

REAL AND NOMINAL PRICE

- The Real and first Price (measurement for the value of a good) was Labour
- The Nominal Price is the quantity of money

Components of the Price:

- Quantity of labour (plus extra for hardship and ingenuity)
- Profit for the use of stock
- Rent for land (or property)

"Wealth, as Mr. Hobbes says, is power. But ... The power which that possession immediately and directly conveys to to him, is the power of purchasing; a certain command over all the labour, or over all the produce of labour which is then in the market.

NATURAL AND MARKET PRICE

The Natural Price is the average rate of wages, rents and profits in a society (depending on different factors)

The Market Price is the actual price, regulated by demand and supply.

Prices tend to gravitate to the Natural Price (through competition)

Particular circumstances can raise the market price for a long time

- Secrets in manufacture
- Scarcity of raw materials
- Monopoly
- Other regulations that restrain competition (corporate privileges, apprenticeship regulations, etc.)

Market Prices seldom stay below the Natural Price for a longer time.

WAGES OF LABOUR

Produce is the Natural Wages of labour

but with appropriation of land and accumulation of stock, rent and profit became the deductibles on the wages of labour
(labour adds value to the materials you work on)

Common Wages depend on the contract between master and workman
their interests diverge (lower – higher wages)
(masters have more power in negotiating: they more easily can combine, they often have the law on their side, they can live off their stock)

Rise of wages occur: if the surplus of stock and the revenue is rising, the demand for work is rising too, rising demand = rising wages

“It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour. It is not, accordingly, in the richest countries, but in the most thriving, or in those which are growing rich the fastest, that the wages of labour are highest.” (p.71)

“It will be found, I believe, in every sort of trade, that the man who works so moderately, as to be able to work constantly, not only preserves his health the longest, but, in the course of the year, executes the greatest quantity of work.” (p.84)

PROFITS OF STOCK

Stock is the accumulation of resources (raw materials)
the increase of stock, which raises wages, tends to lower the profit
the rate of profit is difficult to ascertain, but may be inferred from the rate of interest of money.
(with money you lend, you can buy stock to gain profit = interest on money and profit of stock are connected)
“The province of Holland,...,is a richer country than England. The government there borrow at two per cent, and private people of good credit at three. The wages of labour are said to be higher in Holland than in England, and the Dutch, it is well known, trade upon lower profits than any people in Europe.” (p93)

The diminution of the capital of stock of the society, as it lowers the wages of labour, so it raises the profits of stock, and consequently the interest of money.

WAGES AND PROFIT

Advantages and disadvantages of the different employments of labour and stock tend to equality where there is perfect liberty.

There are five counterbalancing principles:

- the agreeableness or disagreeableness of the employments themselves
- the easiness and cheapness, or the difficulty and expence of learning them
- the constancy or inconstancy of employment in them
- the small or great trust which must be reposed in those who exercise them
- the probability or improbability of success in them

Inequality is occasioned by policy:

- by restraining the competition (long apprenticeship, privileges, monopolies, import-taxes)
- by increasing the competition (free education, incentives)
- by obstruction the free circulation of labour and stock (prerequisites to work in certain professions, immigration laws, etc., fixed prices)

BOOK II

THE DIVISION OF STOCK

When a man has more than enough for immediate consumption, he endeavours to derive a revenue from the rest, using it either as (1) circulating capital or (2) fixed capital

1. It may be employed in raising, manufacturing, or purchasing goods and selling them again with a profit.
2. It may be employed in the improvement of trade, the purchase of machines and instruments of trade, etc.

The stock of a society is divided in the same way into

1. The portion reserved of immediate consumption
2. The fixed capital which consists of
 - a) useful machines
 - b) profitable buildings
 - c) improvements of land
 - d) acquired and useful abilities
3. the circulating capital which consists of
 - a) the money
 - b) the stock of provisions
 - c) the materials of clothes, furniture and buildings
 - d) completed work in the hands of manufacturers and merchants

MONEY

ACCUMULATION OF CAPITAL

EMPLOYMENT OF CAPITALS

(DISCOURAGEMENT OF AGRICULTURE)

(RISE OF TOWNS)

MERCANTILE SYSTEM

EXPENSES OF THE SOUVEREIGN (STATE)

EXPENSES OF DEFENCE, JUSTICE, PUBLIC WORKS, INSTITUTIONS, EDUCATION

FUNDS FOR THE SOUVEREIGN

TAXES ON PROFITS IN GENERAL, ON CAPITAL VALUE, ON WAGES, CAPITATION TAXES, ON CONSUMABLE COMMODITIES

PUBLIC DEBTS