

EXTRACTS FROM ADAM SMITH'S "THE WEALTH OF NATIONS"

The sole purpose of production is to provide the best possible goods to the consumer at the lowest possible price. Society should assist producers of goods and services only to the extent that assisting them benefits the consumer.

The price charged to the consumer for any commodity goes to pay for three things; rent for land or the cost of producing raw materials, the wages of the workers who produce the commodity, and the profits of the person who owns the machinery used to make it and carry it to the market. When the price of an article is neither more nor less than the total cost of these three elements, it is sold at what may be called its natural price. The commodity is then sold for precisely what it is worth, or for what it really cost the person who brought it to market.

If too much of a product is brought to market, the market price falls below the natural price. And the amount of money needed to pay for the use of land, raw materials, labor, and profit is not received in full. Therefore, those who rent land and sell raw materials will not allow all of their goods to be used to produce the article, fewer laborers will work, and the owners of machinery and carriers will not use all of their stock in the production and transportation of the article, since none of them obtained the cost of their contribution to its production. When this happens, less of the commodity will be produced. Eventually, there will only be enough of the article produced to satisfy the demand, and its market price will return to its natural price.

On the other hand, if not enough of a commodity is brought to market, the market price rises above the natural price. Those who are given money for their land and their raw materials, for their labor, and for their profits will be paid more than what they consider to be their costs. Therefore, those who supply land and raw materials will prepare more of their resources for making the article, more laborers will work to produce it, and the owners of machinery and carriers will use more of their stock to produce and transport it. When this happens, more of the commodity will be produced. Eventually, there will be enough to satisfy the demand, and its market price will return to its natural price.

The greatest improvement in the productive powers of labor, and the greater part of the skill, dexterity, and judgement... seems to have been the effects of the division of labor... To take an example... the trade of the pinmaker: a workman not educated to this business (which the division of labor has rendered a distinct trade), nor acquainted with the use of the machinery employed in it... could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way that 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... 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... Each person, therefore, ... might be considered as making 4800 pins in a day. But if they had all wrought separately and independently... they certainly could not each of them have made twenty.

CAPITALISTIC ENTERPRISE

As soon as stock (i.e. capital) has accumulated in the hands of a particular person, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence in order to make a profit by the sale of their work, or by what their labor adds to the value of the materials. In exchanging the complete manufacture... something must be given for the profits of the undertaker of the work who hazards his stock in this adventure. The value which the workmen add to the materials, therefore, resolves itself in this case into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advanced. He could have no interest to employ them, unless he expected from the sale of their work something more than what was sufficient to replace his stock to him...

FOREIGN TRADE

The quantity of every commodity which human industry can either purchase or produce naturally regulates itself in every country... according to the demand of those who are willing to pay the whole rent, labor, and profits which must be paid in order to prepare and bring it to market...

The importation of gold and silver is not the principal, much less the sole benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labor for which there is no demand among them, and brings back in return for it something else for which there is a demand....

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 persons in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or hurtful regulation... It is the maxim of every prudent master of a family, never to attempt to make at home what will cost him more than to buy...

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 it 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... will not thereby be diminished... but only left to find out the way in which it can be employed to the greatest advantage.