

The Adam Smith Institute is proud to present the full text of Adam Smith's great book, *The Wealth of Nations*, online.

This remarkable book was published in 1776, at a time when the power of free trade and competition as stimulants to innovation and progress was scarcely understood. Governments granted monopolies and gave subsidies to protect their own merchants, farmers and manufacturers against 'unfair' competition. The guilds operated stern local cartels: artisans of one town were prevented from travelling to another to find work. Local and national laws forbade the use of new, labour-saving machinery.

And, not surprisingly to us today, poverty was accepted as the common, natural, and inevitable lot of most people.

Adam Smith railed against this restrictive, regulated, 'mercantilist' system, and showed convincingly how the principles of free trade, competition, and choice would spur economic development, reduce poverty, and precipitate the social and moral improvement of humankind. To illustrate his concepts, he scoured the world for examples that remain just as vivid today: from the diamond mines of Golconda to the price of Chinese silver in Peru; from the fisheries of Holland to the plight of Irish prostitutes in London. And so persuasive were his arguments that they not only provided the world with a new understanding of the wealth-creating process; they laid the intellectual foundation for the great era of free trade and economic expansion that dominated the Nineteenth Century.

The Wealth of Nations changed our understanding of the economic world just as Newton's *Principia* changed our understanding of the physical world and Darwin's *Origin of Species*. And now, it is here online, for you to read, and enjoy.

Overview of *Wealth of Nations*

<http://art-bin.com/art/oweala.html>

<http://www.cliffsnotes.com/WileyCDA/LitNote/The-Worldly-Philosophers-Summaries-and-Commentaries-Chapter-3-The-Wonderful-World-of-Adam-Smith.id-163,pageNum-11.html>

To comprehend fully why Smith's *Wealth of Nations* was a revolutionary book, one must know something of the economy and living conditions in England in 1776. The nation was entering the second of three stages of capitalism.

1. The first stage, known as commercial capitalism, occurred between 1450 and 1750. It was brought about by the five factors which produced the Economic Revolution and was affected by geographic discoveries, colonization, and increase in overseas trade. The early capitalists were protected by government control, subsidies, and monopolies and made their profits from transporting goods.

2. The second stage began about 1750 and was made possible by new sources of energy, primarily the steam engine. This invention enabled the factory system to develop through the use of machines for manufacturing and resulted in the rapid growth of wealth. This stage, known as industrial capitalism, which reached its height during the 1850s, resulted as capitalists profited from manufacturing.
3. The third stage of capitalism began in the last quarter of the nineteenth century. Because of the control and direction of industry by financiers, this stage is known as financial capitalism, with profits coming from investing.

Wealth of Nations appeared in England just as the Industrial Revolution was beginning, a fact unknown to Adam Smith and the capitalistic class of his day. In England, the government controlled practically every sector of the economy, including prices, wages, hours of work, production, and foreign trade. The House of Lords represented the noble families, or landed aristocracy, which controlled the vote as well as public office. Only 3 percent of the population affected the election of members to the less static House of Commons.

For the poor, conditions were abominable. Men, women, and children, stripped to the waist and stooped over in semi-darkness, worked in dank mineshafts. The masses struggled brutally for a meager existence. When wool became a profitable commodity, land owners enclosed new pastures to raise sheep. The process of enclosure, which began in the sixteenth century, reached its height in the nineteenth century, with thousands of tenant farmers thrown off the land in order to make room for the more profitable sheep. Over 1.5 million of England's twelve to thirteen million population suffered poverty. Yet the grasping aristocracy, who considered the poor a necessary segment of a stable society, opposed any suggestion of a more equitable distribution of wealth.

Mercantilism, the dominant economic concept of the day, upheld the view of government and business that real wealth consisted of gold and silver. Since the reign of Henry VIII, mercantilists sought a strong, self-sufficient economy, protected by a strong central government. Their program called for the following:

1. accumulation of gold and silver
2. a favorable balance of trade through an excess of exports
3. the self-sufficiency of the nation through the utilization of raw materials from either England or her colonies
4. colonies to provide raw materials, as well as a market for England's manufactured goods
5. low wages and long hours for workers
6. high tariffs to protect home industry and to discourage imports
7. a strong merchant marine.

Adam Smith's *Wealth of Nations* launched a specific attack on the doctrine of mercantilism. In his celebrated Book IV, he called for free trade and the abolition of economic restraints and monopolies. Forget "balance of trade," he argued. "Wealth does not consist in money, or in gold and silver, but in what money purchases, and is valuable only for purchasing." As opposed to the emphasis on agriculture by the physiocrats, Smith emphasized manufacture. For Smith, the real 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.

The replacement of mercantilism with the doctrine of laissez faire did not come immediately with the publication of Smith's views. It was not until the nineteenth century that the *Wealth of Nations* made its full impact. Then Great Britain discarded mercantilism completely to become the world's wealthiest nation. Unfortunately, the rising industrial capitalists managed to disregard certain stinging accusations in Smith's philosophy, such as "People of the same trade seldom meet together but the conversation ends in a conspiracy against the public, or in some diversion to raise prices . . ."

Adam Smith, in fact, was neither pro-capital nor pro-labor. At the University of Glasgow, he was influenced by the concept of "the greatest happiness of the greatest number." Consequently, he avoided taking sides with any class, concerning himself with the promotion of wealth for all of England's classes.

A principle which his contemporary capitalists chose to ignore was Smith's concept of labor value. His observation that labor is the only real standard of value has been contradicted by most economists, but widely adopted by socialist writers. Some ninety years later, Karl Marx seized and expanded upon this idea, building it into his exaggerated theory of "surplus value."

What British capitalists stressed was Smith's gospel of laissez faire. Ignoring the philosopher's warnings about the dangers of monopoly, they justified resistance to government attempts at social legislation. During this era, child labor was common in poorly ventilated and unsanitary factories; manufacturers shackled children to machines. To quell child labor laws, factory owners quoted *Wealth of Nations* in defense of deregulation.

Accordingly, Adam Smith's proposals for protective measures for workers, farmers, consumers, and society as a whole; the abolition of slavery; and the control of monopolies were ignored. Capitalists championed the *Wealth of Nations* as a vindication of corrupt business practices. In this way, Adam Smith, the soft-spoken scholar, became the patron saint of free enterprise in the capitalistic world. In later times, Adam Smith, by thoroughly describing and explaining the market system, became the father of modern economics.

He founded the school of Classical Economists, whose chief spokesmen were David Ricardo and Thomas Malthus.

Wikipedia

***The Wealth of Nations* (1776)**

An Inquiry into the Nature and Causes of the Wealth of Nations is Smith's magnum opus and most influential work, published on 9 March 1776 during the Scottish Enlightenment. It is a clearly written account of political economy at the dawn of the [Industrial Revolution](#), and is widely considered to be the first modern work in the field of economics. It is often considered one of the most influential books on the subject ever published. *The Wealth of Nations* was written for the average educated individual of the 18th century rather than for specialists and mathematicians. There are three main concepts that Smith expands upon in this work that forms the foundation of free market economics: [division of labour](#), pursuit of [self interest](#), and freedom of trade.

The Wealth of Nations expounds that the free market, while appearing chaotic and unrestrained, is actually guided to produce the right amount and variety of goods by a so-called "[invisible hand](#)". The image of the invisible hand was previously employed by Smith in *Theory of Moral Sentiments*, but it has its original use in his essay, "The History of Astronomy". Smith believed that while human motives are often selfishness and [greed](#), the competition in the free market would tend to benefit society as a whole by keeping prices low, while still building in an incentive for a wide variety of goods and services. Nevertheless, he was wary of businessmen and argued against the formation of [monopolies](#).

Smith believed that a division of labour would effect a great increase in production. One example he used was the making of pins. One worker could probably make only twenty pins per day. However, if ten people divided up the eighteen steps required to make a pin, they could make a combined amount of 48,000 pins in one day.

An often-quoted passage from *The Wealth of Nations* is:^[64]

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to 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 advantages.

Value theory was important in classical theory. Smith wrote that the "real price of every thing ... is the toil and trouble of acquiring it" as influenced by its scarcity. Smith maintained that, with rent and profit, other costs besides wages also enter the price of a commodity.^[65] Other classical economists presented variations on Smith, termed the '[labour theory of value](#)'. Classical economics focused on the tendency of markets to move to long-run equilibrium.