

# Adam Smith: Founder of Economics

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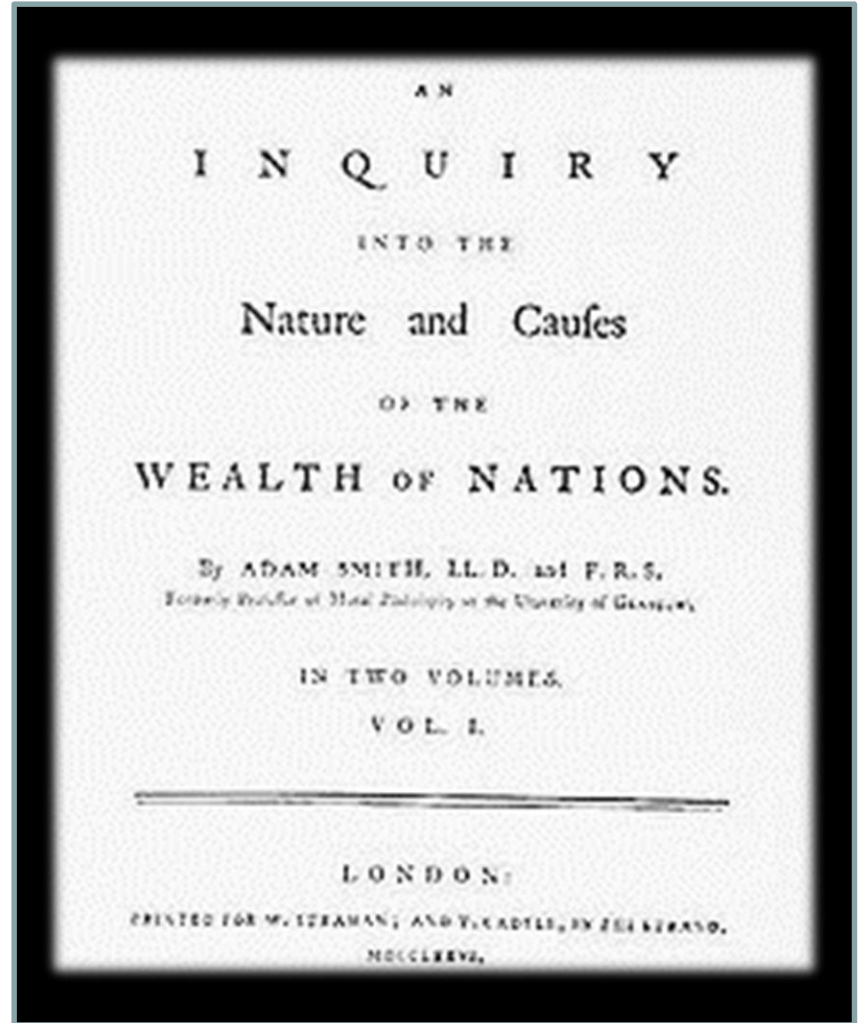
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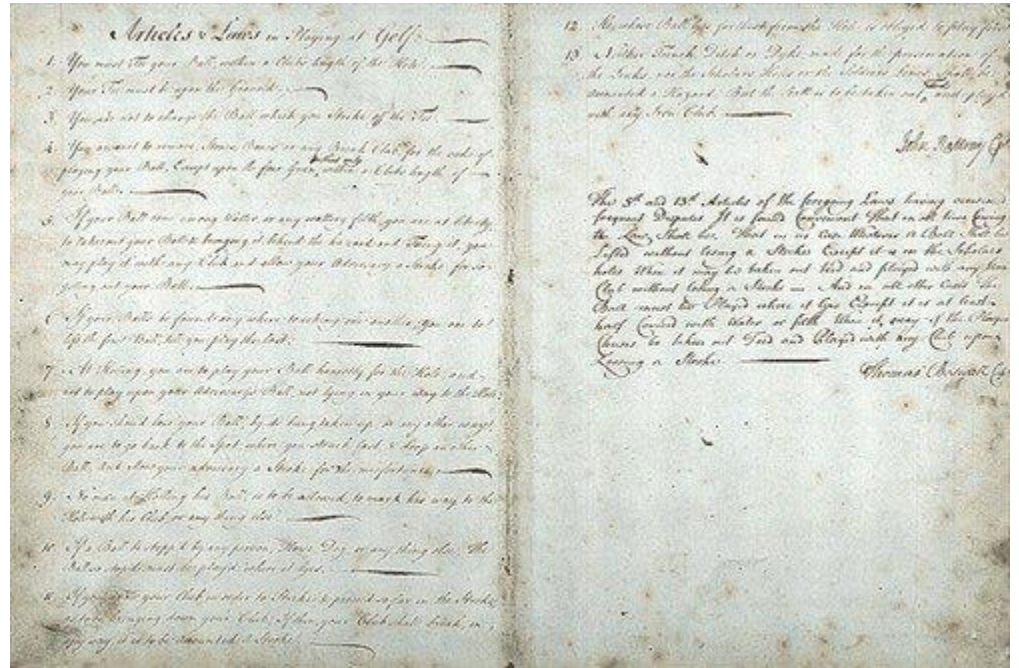


Adam Smith, 1723 - 1790. Political economist, 1787, James Tassie

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 NATIONAL GALLERIES SCOTLAND





John Rattray, 1707-71  
Signatory of First Rules of Golf (1744)

# Ways of Coordinating Economic Activity

Traditional Structures

Authoritarian Structures

Market structures

# Reasons for Slow Development of Markets

## Popularity of Mercantilism

Government promotes exports, stifles imports

Favored industries get subsidies, protection,  
monopoly franchises

Establish and exploit foreign colonies

Accumulate riches (gold) for royalty

# Reasons for Slow Development of Markets

Popularity of Mercantilism

Avarice regarded as sin

## False Principles of Trade

Boston Minister John Cotton, 1639

A man might sell as dear as he can and buy as cheap as he can

If a man lose some of his goods, say by accident at sea, he may raise the price of the rest

He may sell at the price he bought, even though he paid too much

# Reasons for Slow Development of Markets

Popularity of Mercantilism

Avarice regarded as sin

Indifferent attitudes toward personal betterment

Prevalence of local taxes on movement of goods

Lack of standardization of weights and measures

Multiple currencies

Resistance to innovation

Land, labor, and capital not developed concepts



# Factors Promoting Development of Markets

Enclosure of commons



Ringleaders of the Enclosure Movement





Rural Life After Enclosure of the Commons

# Factors Promoting Development of Markets

Enclosure of commons

Political consolidation and centralization

Decay of religious spirit



Bernard Mandeville, 1670-1733

THE  
FABLE  
OF THE  
BEES:  
OR,  
*Private Vices  
Publick Benefits.*

CONTAINING,  
Several Discourses, to demonstrate,  
That Human Frailties, *during the de-  
generacy of MANKIND*, may be turn'd  
to the Advantage of the CIVIL  
SOCIETY, and made to supply  
the Place of *Moral Virtues.*

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*Lux e Tenebris.*

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LONDON:  
Printed for J. ROBERTS, near the Ox-  
ford Arms in Warwick Lane, 1714.

# Factors Promoting Development of Markets

Enclosure of commons

Political consolidation and centralization

Decay of religious spirit

Rise of scientific curiosity and invention

Emergence of business infrastructure and tools

# Smith's Basic Framework

Wealth of nation = GDP per person

GDP = employment X productivity

Productivity level determined by division of labor

Division of labor determined by extent of market

# Syllogistic Summary of Smith's Argument

Every individual desires to increase his own wealth

Every individual can judge better than a distant statesman what use of his labor and capital is most profitable

The wealth of the nation is the aggregate of the wealth of its citizens

Therefore, the wealth of the nation will increase most rapidly if every individual is left free to conduct his own affairs as he sees fit

Source: Wesley Mitchell, *Lecture Notes on Types of Economic Theory*



# Syllogistic Summary of Smith's Argument

Every individual desires to increase his own wealth?

Accurate description of human nature?  
Only "his own wealth"?

Every individual can judge better than a distant statesman what use of his labor and capital is most profitable?

Where do individual tastes and preferences come from?  
Does person have complete information about opportunities?  
Is person capable of weighing all possibilities?  
Will individuals conspire to monopolize trades?

The wealth of the nation is the aggregate of the wealth of its citizens?  
Only wealth of private citizens?  
No consideration of how wealth was acquired?  
What if one person's "good" is another's "bad"?  
No concern inequality in distribution of wealth?

# Where Free Markets Are Precluded

Absence of scarcity (air)

People are not property (slavery, baby trade, organs??)

Family relations (parental “obligations”)

Price rationing too costly (roads, sidewalks, club services)

Dangerous or addictive substances (Rx drugs, alcohol)

Merit and civic goods (mail service, votes)

Reducing effects of inequality (charity, non-price rationing)

# Smith Was Pessimistic About Future of Market Systems

Deadening effects of division of labor

Capital accumulation retarded by declining profits  
Need for wages to fall to subsistence

Lazy landlords not an engine of progress

Did not foresee technical progress

**END**