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An Inquiry into the Nature and Causes of the Wealth of Nations

Excerpt: Introduction and Book III

Adam Smith

INTRODUCTION AND PLAN OF THE WORK.

The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniencies of life which it annually consumes, and which consist always either in the immediate produce of that labour, or in what is purchased with that produce from other nations.

According, therefore, as this produce, or what is purchased with it, bears a greater or smaller proportion to the number of those who are to consume it, the nation will be better or worse supplied with all the necessaries and conveniencies for which it has occasion.

But this proportion must in every nation be regulated by two different circumstances: first, by the skill, dexterity, and judgment with which its labour is generally applied; and, secondly, by the proportion between the number of those who are employed in useful labour, and that of those who are not so employed. Whatever be the soil, climate, or extent of territory of any particular nation, the abundance or scantiness of its annual supply must, in that particular situation, depend upon those two circumstances.

The abundance or scantiness of this supply, too, seems to depend more upon the former of those two circumstances than upon the latter. Among the savage nations of hunters and fishers, every individual who is able to work is more or less employed in useful labour, and endeavours to provide, as well as he can, the necessaries and conveniencies of life, for himself, and such of his family or tribe as are either too old, or too young, or too infirm, to go a-hunting and fishing. Such nations, however, are so miserably poor, that, from mere want, they are frequently reduced, or at least think themselves reduced, to the necessity sometimes of directly destroying, and sometimes of abandoning their infants, their old people, and those afflicted with lingering diseases, to perish with hunger, or to be devoured by wild beasts. Among civilized and thriving nations, on the contrary, though a great number of people do not labour at all, many of whom consume the produce of ten times, frequently of a hundred times, more labour than the greater part of those who work; yet the produce of the whole labour of the society is so great, that all are often abundantly supplied; and a workman, even of the lowest and poorest order, if he is frugal and industrious, may enjoy

a greater share of the necessaries and conveniencies of life than it is possible for any savage to acquire.

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CHAPTER III. 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. When 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; even an ordinary market-town is scarce large enough to afford him constant occupation. In the lone houses and very small villages which are scattered about in so desert a country as the highlands of Scotland, every farmer must be butcher, baker, and brewer, for his own family. In such situations we can scarce expect to find even a smith, a carpenter, or a mason, within less than twenty miles of another of the same trade. The scattered families that live at eight or ten miles distance from the nearest of them, must learn to perform themselves a great number of little pieces of work, for which, in more populous countries, they would call in the assistance of those workmen. Country workmen are almost everywhere obliged to apply themselves to all the different branches of industry that have so much affinity to one another as to be employed about the same sort of materials. A country carpenter deals in every sort of work that is made of wood; a country smith in every sort of work that is made of iron. The former is not only a carpenter, but a joiner, a cabinet-maker, and even a carver in wood, as well as a wheel-wright, a plough-wright, a cart and waggon-maker. The employments of the latter are still more various. It is impossible there should be such a trade as even that of a nailer in the remote and inland parts of the highlands of Scotland. Such a workman at the rate of a thousand nails a-day, and three hundred working days in the year, will make three hundred thousand nails in the year. But in such a situation it would be impossible to dispose of one thousand, that is, of one day's work in the year. As by means of water-carriage, a more extensive market is opened to every sort of industry than what land-carriage alone can

afford it, so it is upon the sea-coast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself, and it is frequently not till a long time after that those improvements extend themselves to the inland parts of the country. A broad-wheeled waggon, attended by two men, and drawn by eight horses, in about six weeks time, carries and brings back between London and Edinburgh near four ton weight of goods. In about the same time a ship navigated by six or eight men, and sailing between the ports of London and Leith, frequently carries and brings back two hundred ton weight of goods. Six or eight men, therefore, by the help of water-carriage, can carry and bring back, in the same time, the same quantity of goods between London and Edinburgh as fifty broad-wheeled waggons, attended by a hundred men, and drawn by four hundred horses. Upon two hundred tons of goods, therefore, carried by the cheapest land-carriage from London to Edinburgh, there must be charged the maintenance of a hundred men for three weeks, and both the maintenance and what is nearly equal to maintenance the wear and tear of four hundred horses, as well as of fifty great waggons. Whereas, upon the same quantity of goods carried by water, there is to be charged only the maintenance of six or eight men, and the wear and tear of a ship of two hundred tons burthen, together with the value of the superior risk, or the difference of the insurance between land and water-carriage. Were there no other communication between those two places, therefore, but by land-carriage, as no goods could be transported from the one to the other, except such whose price was very considerable in proportion to their weight, they could carry on but a small part of that commerce which at present subsists between them, and consequently could give but a small part of that encouragement which they at present mutually afford to each other's industry. There could be little or no commerce of any kind between the distant parts of the world. What goods could bear the expense of land-carriage between London and Calcutta? Or if there were any so precious as to be able to support this expense, with what safety could they be transported through the territories of so many barbarous nations? Those two cities, however, at present carry on a very considerable commerce with each other, and by mutually affording a market, give a good deal of encouragement to each other's industry.

Since such, therefore, are the advantages of water-carriage, it is natural that the first improvements of art and industry should be made where this conveniency opens the whole world for a market to the produce of every sort of labour, and that they should always be much later in extending themselves into the inland parts of the country. The inland parts of the country can for a long time have no other market for the greater part of their goods, but the country which lies round about them, and separates them from the sea-coast, and the great navigable

rivers. The extent of the market, therefore, must for a long time be in proportion to the riches and populousness of that country, and consequently their improvement must always be posterior to the improvement of that country.

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CHAPTER IV. OF THE 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.

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What are the rules which men naturally observe, in exchanging them either for money, or for one another, I shall now proceed to examine. These rules determine what may be called the relative or exchangeable value of goods.

The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use;' the other, 'value in exchange.' The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water; but it will purchase scarce any thing; scarce any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.

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CHAPTER V. OF THE REAL AND NOMINAL PRICE OF COMMODITIES, OR OF 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, conveniencies, and amusements of human life. But after the division of labour has once thoroughly taken place, it is

but 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.

The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money, or with goods, is purchased by labour, as much as what we acquire by the toil of our own body. That money, or those goods, indeed, save us this toil. They contain the value of a certain quantity of labour, which we exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command.

Wealth, as Mr Hobbes says, is power. But the person who either acquires, or succeeds to a great fortune, does not necessarily acquire or succeed to any political power, either civil or military. His fortune may, perhaps, afford him the means of acquiring both; but the mere possession of that fortune does not necessarily convey to him either. The power which that possession immediately and directly conveys 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. His fortune is greater or less, precisely in proportion to the extent of this power, or to the quantity either of other men's labour, or, what is the same thing, of the produce of other men's labour, which it enables him to purchase or command. The exchangeable value of every thing must always be precisely equal to the extent of this power which it conveys to its owner.

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CHAPTER VII. OF THE NATURAL AND MARKET PRICE OF COMMODITIES.

There is in every society or neighbourhood an ordinary or average rate, both of wages and profit, in every different employment of labour and stock. This rate is naturally regulated, as I shall shew hereafter, partly by the general circumstances of the society, their riches or poverty, their advancing, stationary, or declining condition, and partly by the particular nature of each employment.

There is likewise in every society or neighbourhood an ordinary or average rate of rent, which is regulated, too, as I shall shew hereafter, partly by the general circumstances of the society or neighbourhood in which the land is situated, and partly by the natural or improved fertility of the land.

These ordinary or average rates may be called the natural rates of wages, profit and rent, at the time and place in which they commonly prevail.

When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price.

The commodity is then sold precisely for what it is worth, or for what it really costs the person who brings it to market; for though, in common language, what is called the prime cost of any commodity does not comprehend the profit of the person who is to sell it again, yet, if he sells it at a price which does not allow him the ordinary rate of profit in his neighbourhood, he is evidently a loser by the trade; since, by employing his stock in some other way, he might have made that profit. His profit, besides, is his revenue, the proper fund of his subsistence. As, while he is preparing and bringing the goods to market, he advances to his workmen their wages, or their subsistence; so he advances to himself, in the same manner, his own subsistence, which is generally suitable to the profit which he may reasonably expect from the sale of his goods. Unless they yield him this profit, therefore, they do not repay him what they may very properly be said to have really cost him.

Though the price, therefore, which leaves him this profit, is not always the lowest at which a dealer may sometimes sell his goods, it is the lowest at which he is likely to sell them for any considerable time; at least where there is perfect liberty, or where he may change his trade as often as he pleases.

The actual price at which any commodity is commonly sold, is called its market price. It may either be above, or below, or exactly the same with its natural price.

The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit, which must be paid in order to bring it thither. Such people may be called the effectual demanders, and their demand the effectual demand; since it maybe sufficient to effectuate the bringing of the commodity to market. It is different from the absolute demand. A very poor man may be said, in some sense, to have a demand for a coach and six; he might like to have it; but his demand is not an effectual demand, as the commodity can never be brought to market in order to satisfy it.

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 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 perishable, 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, and can not 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 suits 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.



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