

Selections from The Wealth of Nations Smith

George J. Stigler
Editor



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(Continued on inside back cover)

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Wealth of Nations*

Crofts Classics

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ADAM SMITH

Selections from
The Wealth
of Nations

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INTRODUCTION



ONE is naturally proud to introduce a parent who is intelligent and witty, modest and courageous and engaging. Adam Smith, the grandparent of modern economics, is all of these. *The Wealth of Nations* has joined the great literature of all time: it developed a comprehensive explanation of economic life; it was the most powerful assault ever launched against the mercantile philosophy that dominated Western Europe from 1500 to 1800; and it was written with such simple attractiveness that crochety Carlyle called it "the pleasantest of all the books."

A premier scholar finds the great excitement of his life in his scientific work: his bold explorations, his resourceful detective work (of a subtlety and thoroughness that no fictional detective has ever remotely approached), his duels and triumphs and defeats—all these are carried on with the greatest of man's weapons, a superior mind and an ordinary pen. The scholar's personal life is normally uneventful, and Smith's was no exception. He was born in Kirkaldy, Scotland, in 1723 shortly after the death of his father, a customs official. The one bit of high adventure came at the age of three when he was kidnapped by gypsies; it was fortunate, as his biographer Rae observed, that he was soon recaptured, for he would not have made a good gypsy. He attended the Universities of Glasgow and Oxford, and we reproduce the wonderful pages in which he describes university instruction at the time. He taught first at Edinburgh and then at Glasgow, where he achieved his first and lesser fame with his *Theory of Moral Sentiments* (1759). After a tour of the continent as tutor to the Duke of Buccleugh (1762-65), he settled down to ten years of full-time work to complete his great treatise, which was published in 1776. He held a Commissionership of Customs for Scotland from 1777 until his death in 1790.

The contents of *The Wealth of Nations* cannot be summarized, as so many famous books are, by a pat phrase, but the broad base upon which the volume is erected is

the examination of the economic behavior of men who are acting freely in pursuit of their own interests. How, in such a (private enterprise) economy, will the quantities and prices of the various commodities be determined, how will incomes be divided among workers, capitalists, and landlords, and how will the accumulation of capital affect these economic processes? The analysis which answers these questions provides the theoretical skeleton on which the entire work hangs.

But Smith did not set his task as simply the grinding out of a set of deductions from one basic principle—the contrivance of a sort of logical Utopia. His strong sense of realism led him to give for every main argument, sometimes a homely and apt, sometimes a learned and penetrating historical, documentation. Nor could he be accused of neglecting or underrating the importance of “non-economic” factors such as the social and political structure. Thus social institutions are invoked to explain why man is of all luggage the most difficult to transport, and why English colonies prospered more than Spanish colonies, although the latter had greater natural advantages. Conversely, the effects of economic factors on other institutions is also studied; as a tiny example, he found a benevolent effect of the poverty of a clergy (“Nothing but the most exemplary morals can give dignity to a man of small fortune.”). Smith is a clear-eyed and tough-minded observer, avoiding both pollyanish day dreams and cynical despair.

Smith’s strong common sense deserves emphasis because the legend has grown up that his whole system rested upon a naive doctrine of the “natural identity of interests”—a doctrine that whenever a person seeks to serve his own ends, he invariably serves the ends of society. This legend, fostered by a man as learned as the great French historian Elie Halevy, clearly oversimplifies the position of a man who wrote passages such as this:

The member of parliament who supports every proposal for strengthening this monopoly [of domestic trade for the manufacturers] is sure to acquire not only the reputation of understanding trade, but great popularity and influence in an order of men whose numbers and wealth render them of great impor-

tance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.

(This passage also has relevance to the vulgar view that Smith's book was an apologia for the industrial system.)

The doctrine of the "natural identity of interests," indeed, is not really a doctrine at all: it is a problem. It is the problem of discovering those social arrangements under which the free pursuit of self-interest is at worst harmless and at best greatly helpful to the remainder of the community. Under a set of conditions which economists summarize by the word *competition*, Smith demonstrated that it is possible to reconcile personal liberty and economic efficiency with peaceful social co-existence in a large area of man's life. This reconciliation is one of Smith's permanent contributions to the understanding of social life.

We cannot discuss Smith's many other contributions, but we should note that they did not stop with his death. His work teems with ideas which were not completely worked out, and it has no flavor of the doctrinaire creed which disciples must worship and defend but never examine. He therefore deserves much credit for the appearance, a generation later, of that remarkable group of men to whom Marx gave the name of "classical economists"—Ricardo, Malthus, Senior, Say, the Mills, and others. These men elaborated and emended and improved (and occasionally scrambled or forgot) Smith's work and thus launched the first of the modern social sciences on a course marked by large scientific progress and great public service—and a good deal of turbulent pleasure for its practitioners.

The present selections amount to only about one-ninth of the *Wealth of Nations*. I have restricted the material to the main analysis of the operation of an economic system, the introductory chapter of the great attack on mercantilism, and portions of the analysis of the functions of the state. I pray that these samples will lead the reader to the full work. The definitive edition, edited by Edwin Cannan, is reprinted in the Modern Library series.

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