MPhil (Econ.) & MSc (Political Economy)

Dept. of Economics

National and Kapodistrian University of Athens

Lecture 5: Classical Political Economy
Adam Smith

Nicholas J. Theocharakis

Objectives of this lecture

- Explain the birth of classical political economy
- Show the influence of the Scottish Enlightenment on Adam Smith
- To analyze Adam Smith's theories through his works and in particular
  - The analysis of the division of labour
  - The labour theory of value
  - The invisible hand

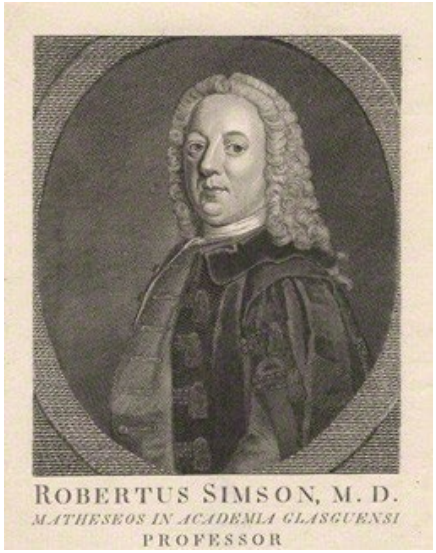
Contents

- Scottish Enlightenment
- Adam Smith
  - Biography
  - Works
    - *Theory of Moral Sentiments*
    - *The Wealth of Nations*
      - The analysis of the division of labour
      - The labour theory of value
      - The invisible hand
      - Non intended consequences

Scottish Enlightenment

Scottish Enlightenment

Gershom Carmichael (1672-1729) First professor of Moral Philosophy at the University of Glasgow



Robert Simson (1687 –1768) Professor of Mathematics at the University of Glasgow (Teacher of Adam Smith)

Francis Hutcheson (1694-1746) Professor of Moral Philosophy at the University of Glasgow (Teacher of Adam Smith)

Scottish Enlightenment

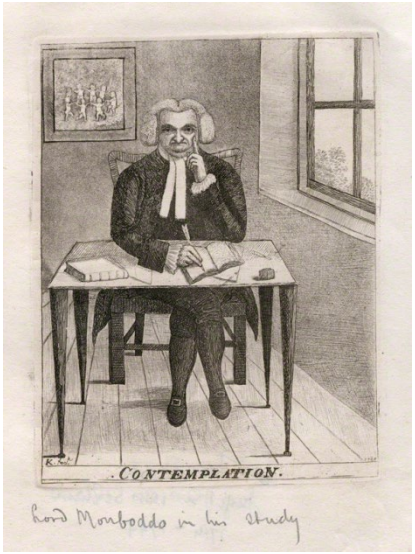
Henry Home, Lord Kames (1696-1782)
Philosopher, judge, central figure of the Scottish Enlightenment

Colin Maclaurin (1698-1746)
Professor of Mathematics University of Edinburgh

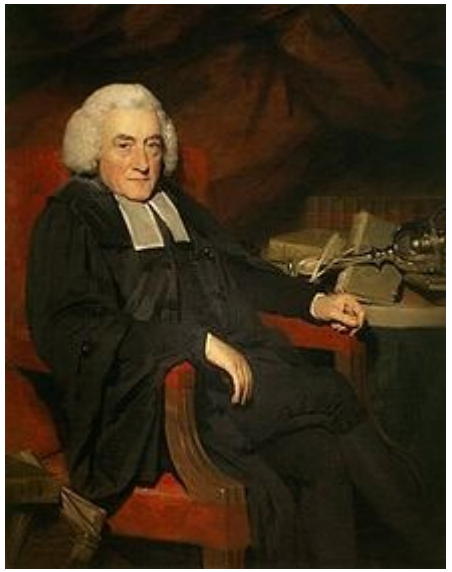
Thomas Reid (1710-1796)
Philosopher, succeeded Smith at Glasgow University

Scottish Enlightenment

David Hume
(1711 – 1776)

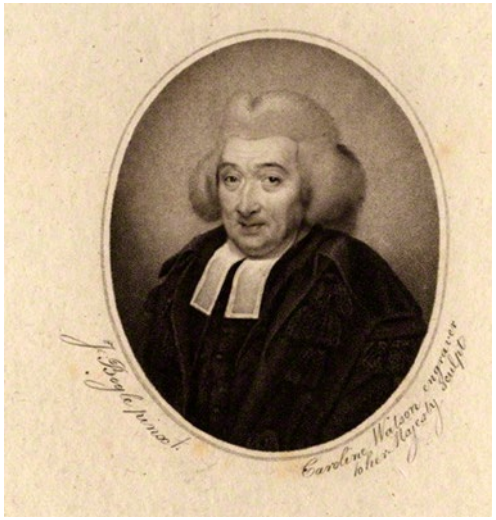


James Burnett,
Lord Monboddo
(1714 –1796)
Judge, linguist, philosopher



William Robertson
(1721–1793)
Historian,
Rector of the
University of Edinburgh

Scottish Enlightenment

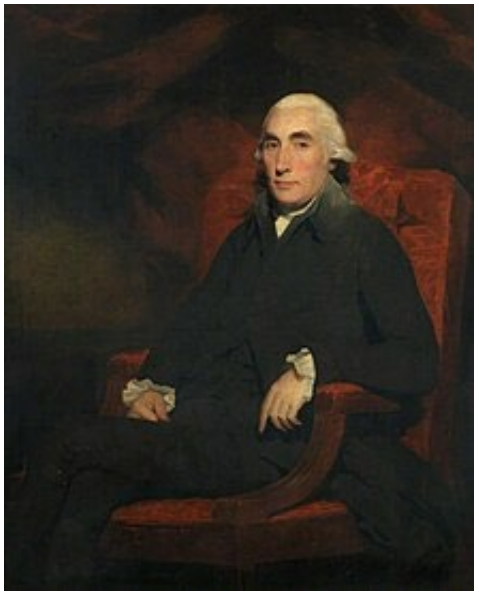


George Campbell
(1719 –1796)
Philosopher,
Professor of divinity

Adam Ferguson
(1723 – 1816)
Professor of Moral
Philosophy at the University
of Edinburgh

Adam Smith
(1723 –1790)

Scottish Enlightenment



Joseph Black (1728-1799)
Physicist and chemist (magnesium, latent heat, specific heat, and carbon dioxide). Professor of Anatomy and Chemistry at the University of Glasgow and Professor of Medicine and Chemistry at the University of Edinburgh

James Hutton
(1726-1797)
"The Father of Geology"
(Together with Black literary executors of Smith)

James Beattie
(1735-1803)
Professor of Moral Philosophy at Aberdeen

Scottish Enlightenment

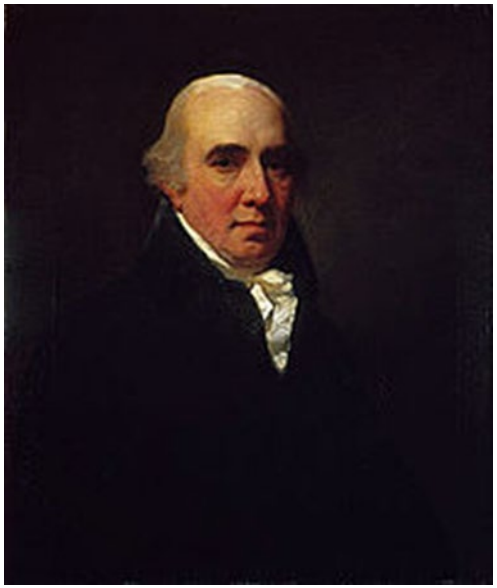
John Millar
(1735–1801) Philosopher, historian and Regius Professor of Civil Law at the University of Glasgow

James Watt
(1738-1819)
Inventor and engineer

James Anderson
(1739-1808)
Agronomist and economist
An Enquiry into the Nature of the Corn Laws, (1777)

Scottish Enlightenment

James Boswell
(1740-1795)
The Life of Samuel Johnson, LL.D. (1791)



Dugald Stewart
(1753 –1828)
Philosopher and mathematician
Biographer of Adam Smith
Succeeded Adam Ferguson

Robert Burns
(1759-1796)
National poet of Scotland

Scottish Enlightenment

Francis Hutcheson
(1694-1746)
Professor of Moral
Philosophy at the
University of Glasgow
(Teacher of Adam Smith)

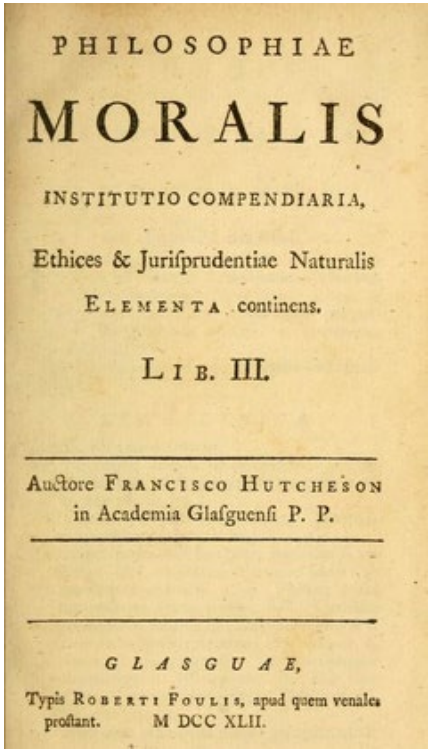
VIII. In comparing the *moral Qualitys* of Actions, in order to regulate our *Election* among various Actions propos'd, or to find which of them has the greateſt *moral Excellency*, we are led by *our moral Senſe* of *Virtue* to judge thus; that in *equal Degrees* of Happineſs, expected to proceed from the Action, the *Virtue* is in proportion to the *Number* of Perſons to whom the Happineſs ſhall extend: (and here the *Dignity* Sect. 3. or *moral Importance* of Perſons, may compenſate Numbers) and in equal *Numbers*, the *Virtue* is as the *Quantity* of the Happineſs, or natural Good; or that the *Virtue* is in a *compound Ratio* of the *Quantity* of Good, and *Number* of Enjoyers. In the ſame manner, the *moral Evil*, or *Vice*, is as the Degree of Miſery, and *Number* of Sufferers; ſo that, *that Action* is *beſt*, which procures the *greateſt Happineſs* for the *greateſt Numbers*; and *that*, *worſt*, which, in *like manner*, occaſions *Miſery*.

Qualitys determining our Election.

INQUIRY
INTO THE
ORIGINAL of our IDEAS
OF
BEAUTY and *VIRTUE*;

(1726)

Scottish Enlightenment


PHILOSOPHIAE

MORALIS

INSTITUTIO COMPENDIARIA,

Ethices & Jurisprudentiae Naturalis

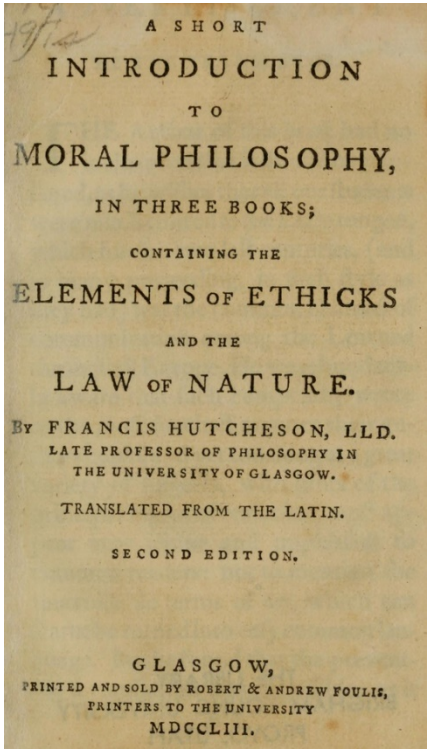
ELEMENTA continens.

LIB. III.

Auctore FRANCISCO HUTCHESON
in Academia Glasguensi P. P.

GLASGUAE,

Typis ROBERTI FOULIS, apud quem venales
prostant. M DCC XLII.


A SHORT

INTRODUCTION

TO

MORAL PHILOSOPHY,

IN THREE BOOKS;

CONTAINING THE

ELEMENTS OF ETHICKS

AND THE

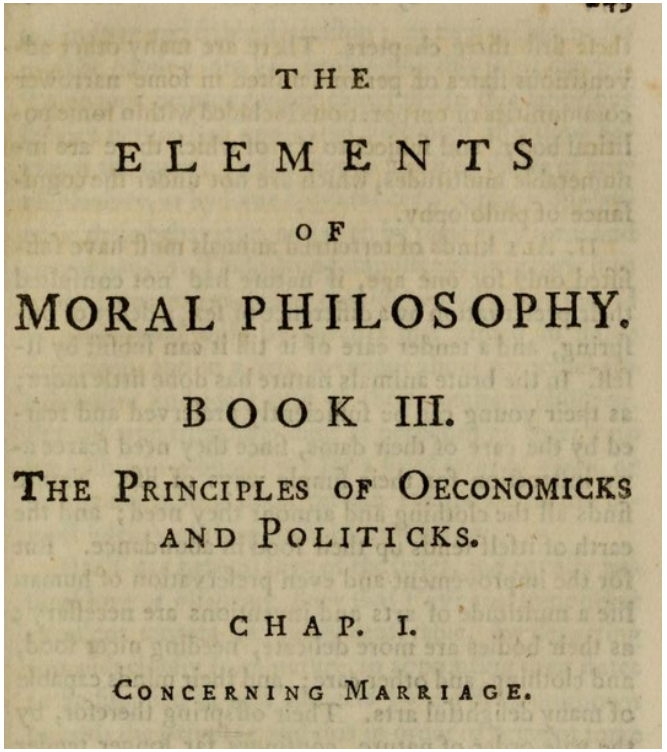
LAW OF NATURE.

By FRANCIS HUTCHESON, LLD.
LATE PROFESSOR OF PHILOSOPHY IN
THE UNIVERSITY OF GLASGOW.

TRANSLATED FROM THE LATIN.

SECOND EDITION.

GLASGOW,
PRINTED AND SOLD BY ROBERT & ANDREW FOULIS,
PRINTERS TO THE UNIVERSITY
MDCCLIII.


THE

ELEMENTS

OF

MORAL PHILOSOPHY.

BOOK III.

THE PRINCIPLES OF OECONOMICKS
AND POLITICKS.

CHAP. I.

CONCERNING MARRIAGE.

Benevolence drives human behaviour, and we achieve our best interest without seeking it

Influenced by Aristotle

Scottish Enlightenment

Adam Ferguson
(1723 – 1816)
Professor of Moral Philosophy at the University of Edinburgh

AN

ESSAY

ON THE

HISTORY

OF

CIVIL SOCIETY.

By ADAM FERGUSON, LL. D.

Professor of Moral Philosophy in the University of Edinburgh.

The SECOND EDITION, corrected.

LONDON:

Printed for A. Millar and T. Cadell, in the Strand; and A. Kincaid and J. Bell, Edinburgh.

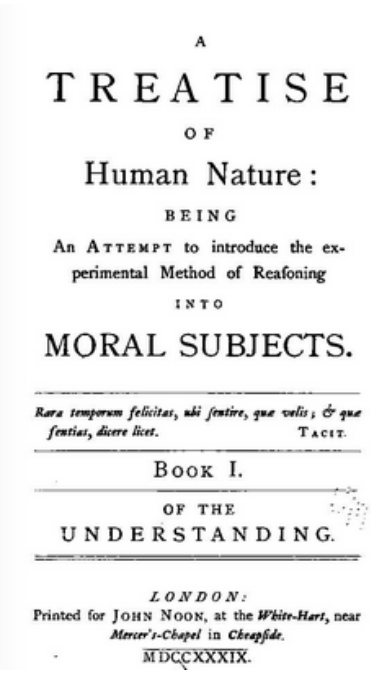
MDCCLXVIII.

Men, in general, are ſufficiently diſpoſed to occupy themſelves in forming projects and ſchemes: but he who would ſcheme and project for others, will find an opponent in every perſon who is diſpoſed to ſcheme for himſelf. Like the winds, that come we know not whence, and blow whitherſoever they liſt, the forms of ſociety are derived from an obſcure and diſtant origin; they ariſe, long before the date of philoſophy, from the inſtincts, not from the ſpeculations, of men. The croud of mankind, are directed in their eſtabliſhments and meaſures, by the circumſtances in which they are placed; and ſeldom are turned from their way, to follow the plan of any ſingle projector.

Every ſtep and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindneſs to the future; and nations ſtumble upon eſtabliſhments, which are indeed the reſult of human action, but not the execution of any human deſign *. If Cromwell ſaid, That a man never mounts higher, than when he knows not whither he is going; it may with more reaſon be affirmed of communities, that they admit of the greateſt revolutions where no change is intended, and that the moſt refined politicians do not always know whither they are leading the ſtate by their projects.

Scottish Enlightenment

David Hume
(1711 – 1776)

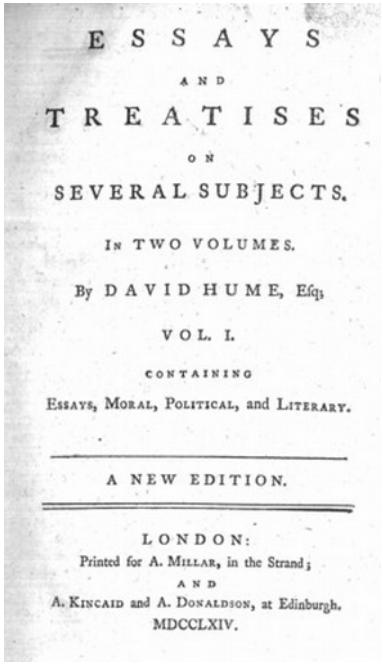


A
TREATISE
OF
Human Nature:
BEING
An ATTEMPT to introduce the experimental Method of Reasoning
INTO
MORAL SUBJECTS.

Rara temporum felicitas, ubi sentire, quæ velis; & quæ sentias, dicere licet. TACIT.

BOOK I.
OF THE
UNDERSTANDING.

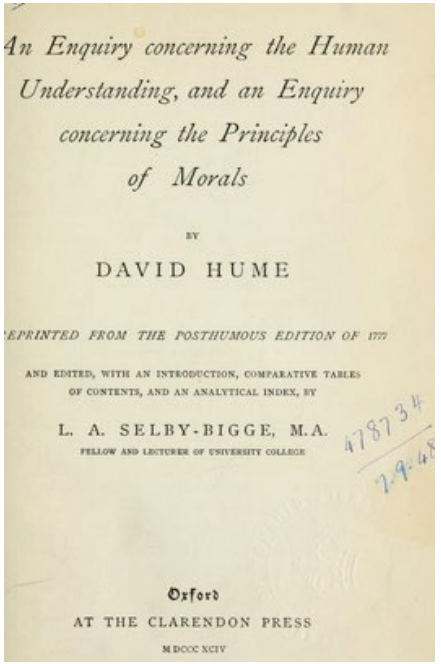
LONDON:
Printed for JOHN NOON, at the *White-Hart*, near *Mercer's-Chapel* in *Cheapside*.
MDCCXXXIX.



ESSAYS
AND
TREATISES
ON
SEVERAL SUBJECTS.
IN TWO VOLUMES.
By DAVID HUME, Esq;
VOL. I.
CONTAINING
ESSAYS, MORAL, POLITICAL, and LITERARY.

A NEW EDITION.

LONDON:
Printed for A. MILLAR, in the Strand;
AND
A. KINCAID and A. DONALDSON, at Edinburgh.
MDCCLXIV.

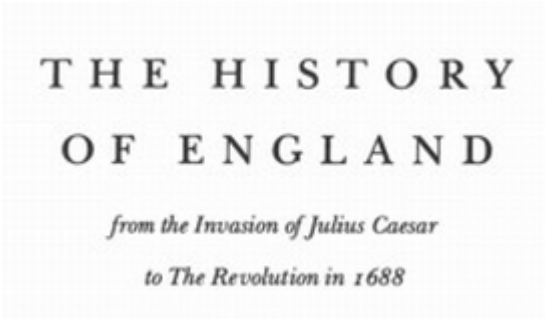


An Enquiry concerning the Human Understanding, and an Enquiry concerning the Principles of Morals

BY
DAVID HUME

REPRINTED FROM THE POSTHUMOUS EDITION OF 1777
AND EDITED, WITH AN INTRODUCTION, COMPARATIVE TABLES OF CONTENTS, AND AN ANALYTICAL INDEX, BY
L. A. SELBY-BIGGE, M.A.
FELLOW AND LECTURER OF UNIVERSITY COLLEGE

Oxford
AT THE CLARENDON PRESS
MDCCC XCIV



THE HISTORY
OF ENGLAND
from the Invasion of Julius Caesar
to The Revolution in 1688

Scottish Enlightenment

David Hume
(1711 – 1776)

A Treatise of Human Nature: *Being an Attempt to introduce the experimental Method of Reasoning into Moral Subjects*. (1739–40)
Essays Moral and Political (1741–2)
An Enquiry Concerning Human Understanding (1748
An Enquiry Concerning the Principles of Morals (1751)
Political Discourses (1752).
The History of England (1754–62)
The Natural History of Religion (1757)
"My Own Life" (1776) published by Adam Smith
Dialogues Concerning Natural Religion (1779)

Scottish Enlightenment

David Hume
(1711 – 1776)

POLITICAL

DISCOURSES.

By

DAVID HUME ESQ.

THE SECOND EDITION.

EDINBURGH,

Printed by R. FLEMING,

For A. KINCAID and A. DONALDSON.

M.DCC.LII.

CONTENTS.

Scottish Enlightenment

OF COMMERCE.

DISCOURSE I.

THE greatneſs of a ſtate and the happineſs of its ſubjects, however independent they may be ſuppos'd in ſome reſpects, are commonly allow'd to be inſeparable with regard to commerce; and as private men receive greater ſecurity, in the poſſeſſion of their trade and riches, from the power of the public, ſo the public becomes powerful in proportion to the riches and extenſive commerce of private men. This maxim is true in general; tho'

OF LUXURY.

verſing together, and contributing to each other's pleaſure and entertainment. Thus *induſtry*, *knowledge* and *humanity* are linkt together by an indiſſoluble chain, and are found, from experience as

DISCOURSE III.

Of Money.

MONEY is not, properly ſpeaking, one of the ſubjects of commerce; but only the inſtrument, which men have agreed upon to facilitate the exchange of one commodity for another. 'Tis none of the wheels of trade: 'Tis the oil, which renders the motion of the wheels more ſmooth and eaſy. If we conſider any one kingdom by itſelf, 'tis evident, that the greater or leſs plenty of money is of no conſequence; ſince the prices of commodities are always proportion'd to the plenty of money, and a crown in *Harry* the VII.'s time ſerv'd the ſame purpoſe as a pound does at preſent. 'Tis only the *public*, which draws

Scottish Enlightenment

OF INTEREST.

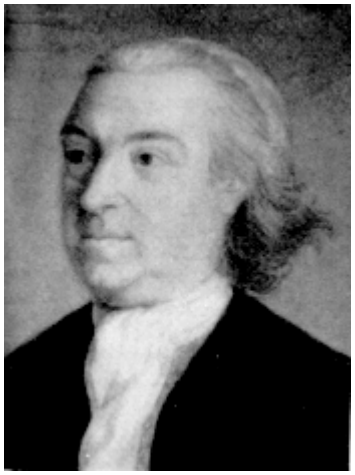
HIGH intereſt ariſes from *three* circumſtances: A great demand for borrowing; little riches to ſupply that demand; and great profits ariſing from commerce: And theſe circumſtances are a clear proof of the ſmall advance of commerce and induſtry, not of the ſcarcity of gold and ſilver. Low

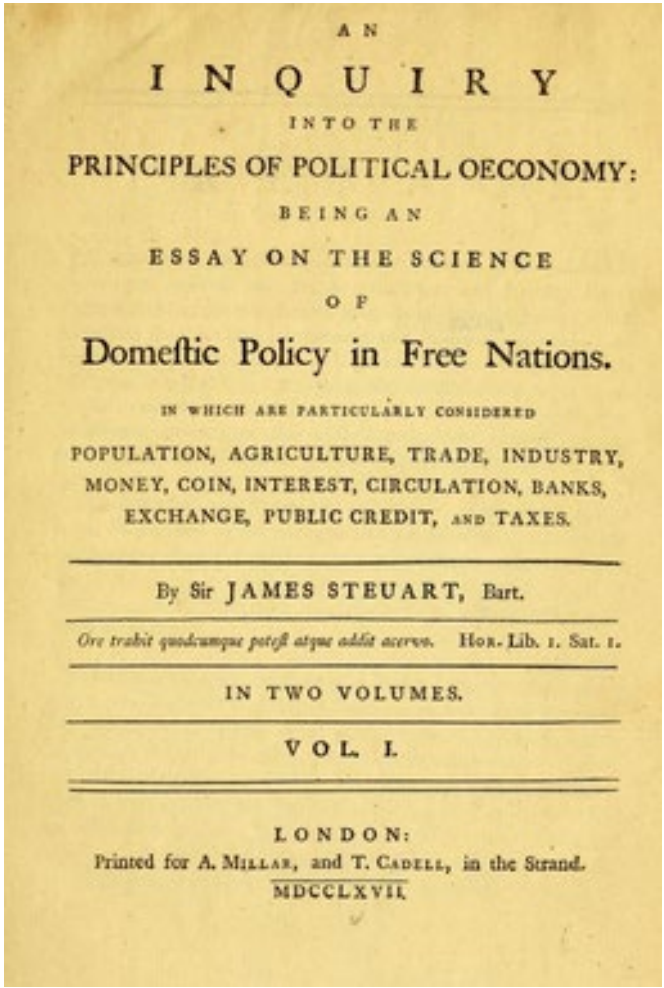
OF THE BALANCE OF TRADE.

SUPPOSE four fifths of all the money in *Britain* to be annihilated in one night, and the nation reduc'd to the ſame condition, in this particular, as in the reigns of the *Harrys* and *Edwards*; what would be the conſequence? Muſt not the price of all labour and commodities ſink in proportion, and every thing be ſold as cheap as they were in thoſe ages? What nation could then diſpute with us in any foreign market, or pretend to navigate or to wou'd afford ſufficient profit? In how little time, therefore, muſt this bring back the money, which we had loſt, and raiſe us to the level of all the neigbouring nations? Where, after we have ariv'd, we immediately loſe the advantage of the cheapneſs of labour and commodities; and the farther flowing in of money is ſtopt by our fulneſs and repletion.

Price–specie flow mechanism

Sir James Steuart (1713-1780)





AN

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL OECONOMY:

BEING AN

ESSAY ON THE SCIENCE

OF

Domeſtic Policy in Free Nations.

IN WHICH ARE PARTICULARLY CONSIDERED

POPULATION, AGRICULTURE, TRADE, INDUSTRY, MONEY, COIN, INTEREST, CIRCULATION, BANKS, EXCHANGE, PUBLIC CREDIT, AND TAXES.

By Sir JAMES STEUART, Bart.

Ore trahit quodcunque poteſt atque addit acervo. Hor. Lib. 1. Sat. 1.

IN TWO VOLUMES.

VOL. I.

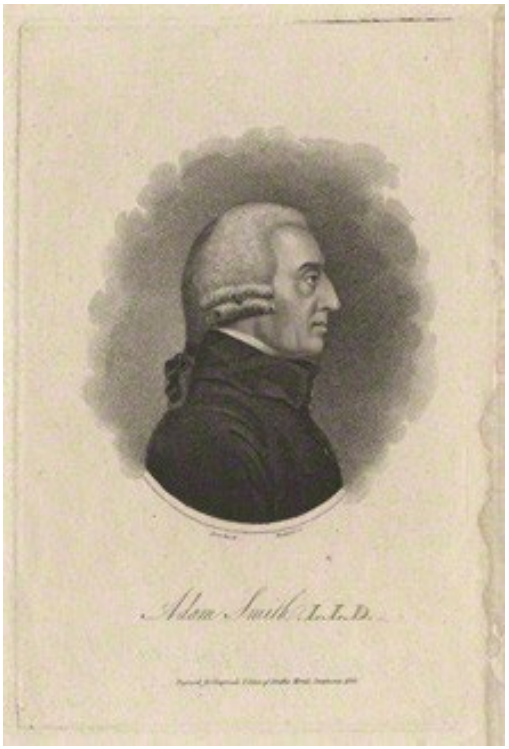
LONDON:

Printed for A. Millar, and T. Cadell, in the Strand.

MDCCLXVII.

- Last representative of mercantilism
- Active intervention of the state
- Correlation between population and food
- Protection of industry
- Role of demand in 'macroeconomic' equilibrium
- Supply and demand
- Profit upon alienation
- Demand for domestic luxury goods beneficial
- Labour and demand equilibrium
- There are no general rules

Adam Smith (1723-1790)

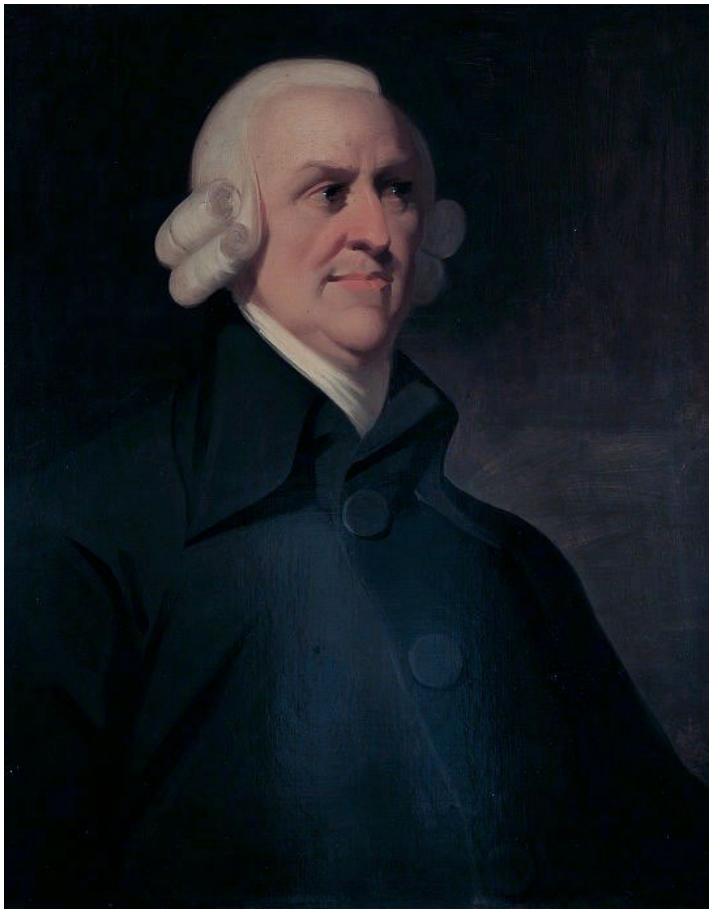


by Mackenzie, after James Tassie
stipple engraving, published 1809

by James Tassie
glass paste medallion, 1787

by John Kay
etching, 1790

Adam Smith (1723-1790)



The Muir portrait

Adam Smith (1723-1790)

Adam Smith (1723-1790)

A crowd gather to watch the unveiling of a 10ft bronze statue of Adam Smith at the Royal Mile on July 4, 2008, in Edinburgh, Scotland. The statue, created by Alexander Stoddart, was unveiled in the heart of Edinburgh where Smith worked and died.

Adam Smith (1723-1790)

Adam Smith (1723-1790)

- Biography

Born in Kirkcaldy,
County Fife, Scotland

- His father died when he was two months old, and he grew up with his mother.
- Studied at Glasgow University at the age of 14.
- 1740 Snell exhibitioner, Balliol College, Oxford.

Smith's mother
Margaret Douglas of Strathendry

Adam Smith (1723-1790)

Glasgow University

Balliol College, Oxford

Adam Smith (1723-1790)

- 1748 Public lectures at the University of Edinburgh “Rhetoric and belles-lettres”
- 1750 meets David Hume
- 1751 Professor of Logic at the University of Glasgow
- 1752 Member of the Philosophical Society of Edinburgh and Professor of Moral Philosophy at the University of Glasgow
- 1759 Publishes *The Theory of Moral Sentiments*
- 1762 Awarded Doctor of Laws (LL.D.)
- 1763 Leaves university to accompany Henry Scott, Duke of Buccleuch [stepson of Charles Townshend] on the Grand Tour
- Toulouse [*WoN*]-Geneva [Voltaire]-Paris [Benjamin Franklin, Jacques Turgot, Jean D'Alembert, André Morellet, Helvétius, François Quesnay]
- 1766 Henry Scott's young brother dies in Paris, and they return to Scotland.

Adam Smith (1723-1790)

- Professors of Moral Philosophy [Glasgow]
  - Gershom Carmichael MA (1727)
  - Francis Hutcheson MA LLD (1730)
  - Thomas Craigie MA (1746)
  - Adam Smith MA LLD (1752)
  - Thomas Reid MA DD (1764)

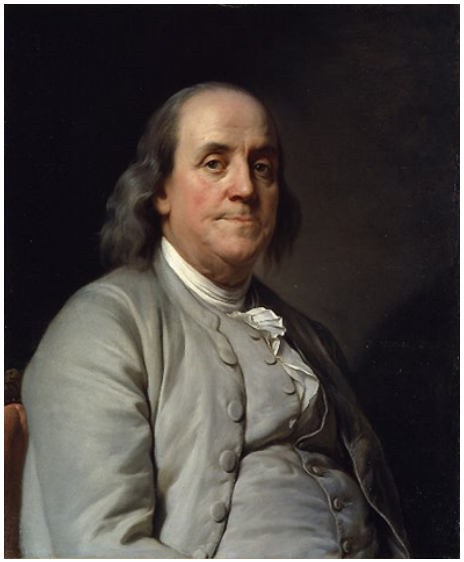
Adam Smith (1723-1790)

Charles Townshend (1725 –1767)

Thomas Gainsborough: Henry Scott (1746-1812), 3rd Duke of Buccleuch

Voltaire (1694-1778)

Adam Smith (1723-1790)



Benjamin Franklin
(1706 - 1790)

Jean Le Rond d'Alembert
(1717-1783)

André Morellet
(1727 –1819)

Adam Smith (1723-1790)

Claude Adrien Helvétius
(1715–1771)

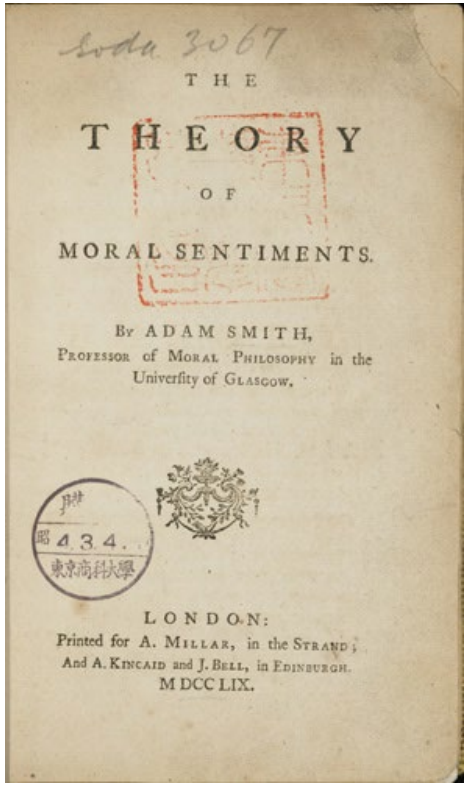
Jacques Turgot
(1727-1781)

François Quesnay
(1694–1774)

Adam Smith (1723-1790)

- 1766 Returns to Kirkcaldy and devotes the next ten years to writing the Wealth of Nations
- 1773 Fellow of the Royal Society of London
- 1776 Publishes *An Inquiry into the Nature and Causes of the Wealth of Nations*
- 1778 Appointed Commissioner of Customs in Scotland and lives with his mother in Edinburgh
- 1787-9 Lord Rector of the University of Glasgow
- 1790 Dies in Edinburgh

Adam Smith (1723-1790)



THE

THEORY

OF

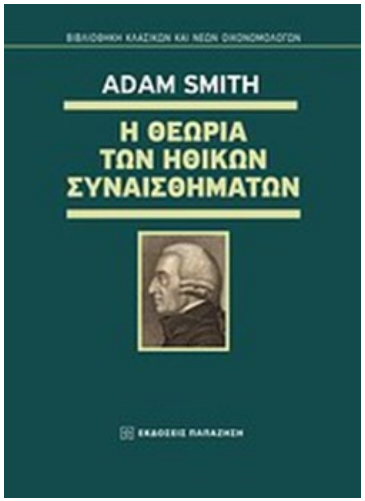
MORAL SENTIMENTS.

By ADAM SMITH,
Professor of Moral Philosophy in the
University of Glasgow.

LONDON:
Printed for A. Millar, in the Strand;
And A. Kincaid and J. Bell, in Edinburgh.
M DCC LIX.

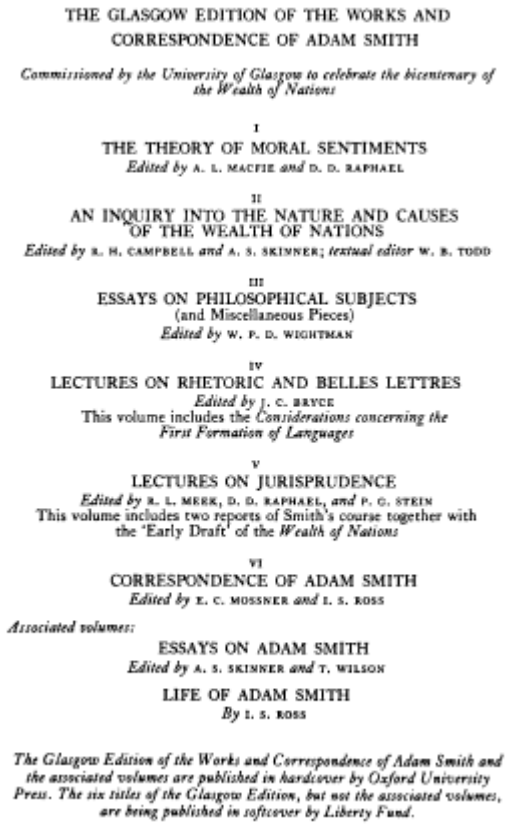
The Theory of Moral Sentiments
1759

The Theory of Moral Sentiments was published in 1759 when Smith was a professor in Glasgow. A second revised edition was published in 1761. Three other editions with minor changes appeared in 1767, 1774 and 1781. A significantly revised edition was published shortly before Smith's death in 1790.



Adam Smith, *Η θεωρία των ηθικών συναισθημάτων*, μετάφραση-επιμέλεια: Διονύσης Γ. Δρόσος, επιμέλεια σειράς: Μιχάλης Ψαλιδόπουλος, Εκδόσεις Παπαζήση, 2012

Adam Smith (1723-1790)



THE GLASGOW EDITION OF THE WORKS AND CORRESPONDENCE OF ADAM SMITH

Commissioned by the University of Glasgow to celebrate the bicentenary of the Wealth of Nations

I
THE THEORY OF MORAL SENTIMENTS
Edited by A. L. MACFIE *and* D. D. RAPHAEL

II
AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS
Edited by R. H. CAMPBELL *and* A. S. SKINNER; *textual editor* W. B. TODD

III
ESSAYS ON PHILOSOPHICAL SUBJECTS
(and Miscellaneous Pieces)
Edited by W. P. D. WIGHTMAN

IV
LECTURES ON RHETORIC AND BELLES LETTRES
Edited by J. C. BRYCE
This volume includes the *Considerations concerning the First Formation of Languages*

V
LECTURES ON JURISPRUDENCE
Edited by R. L. MEEK, D. D. RAPHAEL, *and* P. G. STEIN
This volume includes two reports of Smith's course together with the 'Early Draft' of the *Wealth of Nations*

VI
CORRESPONDENCE OF ADAM SMITH
Edited by E. C. MOSSNER *and* I. S. ROSS

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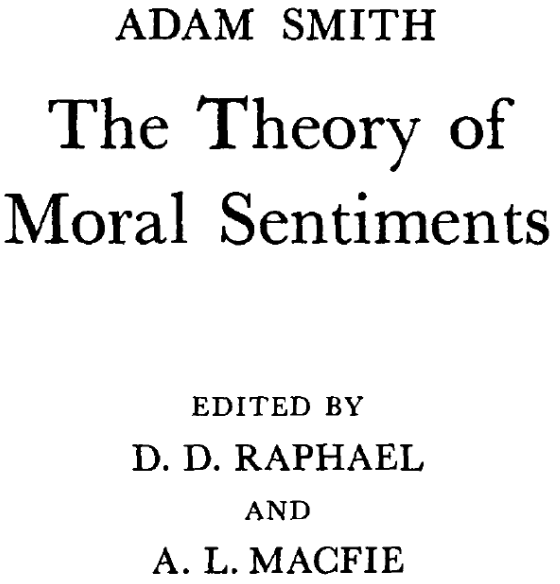
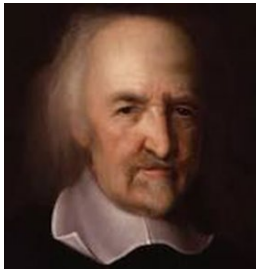


ADAM SMITH

The Theory of Moral Sentiments

EDITED BY
D. D. RAPHAEL
AND
A. L. MACFIE

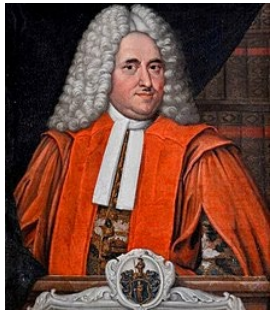
Adam Smith (1723-1790)


Sociability

- Hugo Grotius
- Thomas Hobbes
- Samuel Pufendorf
- Gershom Carmichael
- Francis Hutchison
- Christian Thomasius
- John Locke






PART I

Of the Propriety of Action
Consisting of Three Sections

SECTION I

Of the Sense of Propriety

CHAP. I

Of Sympathy

1 How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all the other original passions of human nature, is by no means confined to the virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it.

2 As we have no immediate experience of what other men feel, we can form no idea of the manner in which they are affected, but by conceiving what we ourselves should feel in the like situation. Though our brother is upon the rack, as long as we ourselves are at our ease, our senses will never inform us of what he suffers. They never did, and never can, carry us beyond our own person, and it is by the imagination only that we can form any conception of what are his sensations. Neither can that faculty help us to this any other way, than by representing to us what would be our own, if we were in his case. It is the impressions of our own senses only, not those of his, which our imaginations copy. By the imagination we place ourselves in his situation, we conceive ourselves enduring all the same torments, we enter as it were into his body, and become in some measure the same person with him, and thence form some idea of his sensations, and even feel something which, though weaker in degree, is not altogether unlike them. His agonies, when they are thus brought home to ourselves, when we have thus adopted and made them our own, begin at last to affect us, and we then tremble and shudder at the thought of what he feels. For as to be in pain or distress of any kind excites the most excessive sorrow, so to conceive or to imagine that we are in it, excites some degree of the same emotion, in proportion to the vivacity or dulness of the conception.

Sympathy

5 Pity and compassion are words appropriated to signify our fellow-feeling with the sorrow of others. Sympathy, though its meaning was, perhaps, originally the same, may now, however, without much impropriety, be made use of to denote our fellow-feeling with any passion whatever.[1]

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even to prevent our own ruin. We must, here, as in all other cases, view ourselves not so much according to that light in which we may naturally appear to ourselves, as according to that in which we naturally appear to others. Though every man may, according to the proverb, be the whole world to himself, to the rest of mankind he is a most insignificant part of it. Though his own happiness may be of more importance to him than that of all the world besides, to every other person it is of no more consequence than that of any other man. Though it may be true, therefore, that every individual, in his own breast, naturally prefers himself to all mankind, yet he dares not look mankind in the face, and avow that he acts according to this principle. He feels that in this preference they can never go along with him, and that how natural soever it may be to him, it must always appear excessive and extravagant to them. When he views himself in the light in which he is conscious that others will view him, he sees that to them he is but one of the multitude in no respect better than any other in it. If he would act so as that the impartial spectator may enter into the principles of his conduct, which is what of all things he has the greatest desire to do, he must, upon this, as upon all other occasions, humble the arrogance of his self-love, and bring it down to something which other men can go along with. They will indulge it so far as to allow him to be more anxious about, and to pursue with more earnest assiduity, his own happiness than that of any other person. Thus far, whenever they place themselves in his situation, they will readily go along with him. In the race for wealth, and honours, and preferments, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should justle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of. This man is to them, in every respect, as good as he: they do not enter into that self-love by which he prefers himself so much to this other, and cannot go along with the motive from which he hurt him. They readily, therefore, sympathize with the natural resentment of the injured, and the offender becomes the object of their hatred and indignation. He is sensible that he becomes so, and feels that those sentiments are ready to burst out from all sides against him.

impartial spectator

CHAP. III

Of the utility of this constitution of Nature

1 It is thus that man, who can subsist only in society, was fitted by nature to that situation for which he was made. All the members of human society stand in need of each others assistance, and are likewise exposed to mutual injuries. Where the necessary assistance is reciprocally afforded from love, from gratitude, from friendship, and esteem, the society flourishes and is happy. All the different members of it are bound together by the agreeable bands of love and affection, and are, as it were, drawn to one common centre of mutual good offices.

2 But though the necessary assistance should not be afforded from such

generous and disinterested motives, though among the different members of the society there should be no mutual love and affection, the society, though less happy and agreeable, will not necessarily be dissolved. Society may subsist among different men, as among different merchants, from a sense of its utility, without any mutual love or affection; and though no man in it should owe any obligation, or be bound in gratitude to any other, it may still be upheld by a mercenary exchange of good offices according to an agreed valuation.

3 Society, however, cannot subsist among those who are at all times ready to hurt and injure one another. The moment that injury begins, the moment that mutual resentment and animosity take place, all the bands of it are broke asunder, and the different members of which it consisted are, as it were, dissipated and scattered abroad by the violence and opposition of their discordant affections. If there is any society among robbers and murderers, they must at least, according to the trite observation, abstain from robbing and murdering one another. Beneficence, therefore, is less essential to the existence of society than justice. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it.

4 Though Nature, therefore, exhorts mankind to acts of beneficence, by the pleasing consciousness of deserved reward, she has not thought it necessary to guard and enforce the practice of it by the terrors of merited punishment in case it should be neglected. It is the ornament which embellishes, not the foundation which supports the building, and which it was, therefore, sufficient to recommend, but by no means necessary to impose. Justice, on the contrary, is the main pillar that upholds the whole edifice.

Adam Smith (1723-1790)

Das Adam Smith Problem

Is there a difference between the *Theory of Moral Sentiments* and the *Wealth of Nations?*

Adam Smith (1723-1790)

AN

INQUIRY

INTO THE

Nature and Cauſes

OF THE

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Adam Smith (1723-1790)

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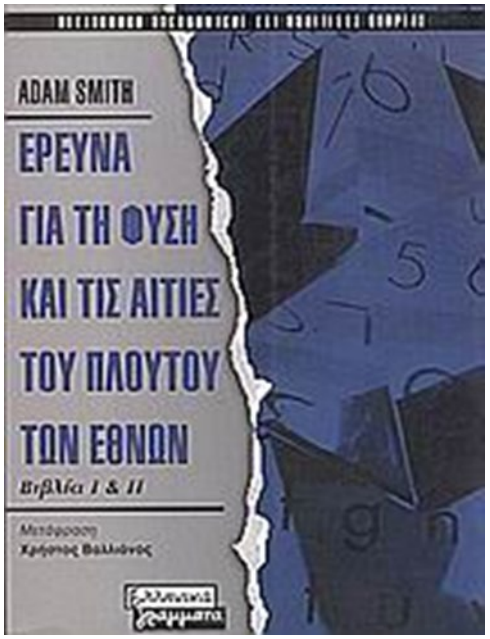

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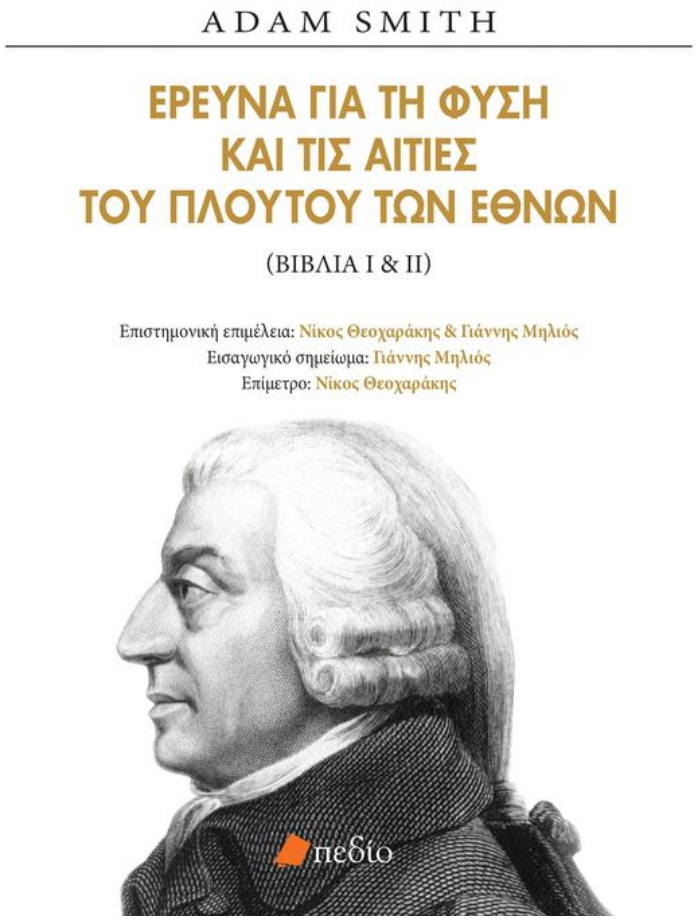

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Adam Smith (1723-1790)

Adam Smith, «Περί της διαφορετικής πορείας εξέλιξης της ολβιότητας σε διαφορετικά έθνη» (Βιβλίο III), στο Ηλίας Γεωργαντάς & Θανάσης Γκιούρας (επιμ.) *Χώρος, πόλη και εξουσία στη νεωτερικότητα*, Ίδρυμα Σάκη Καράγιωργα, Σαββάλας, Αθήνα, 2010

Adam Smith (1723-1790)

Introduction and Plan of the Work

BOOK I

Of the Causes of Improvement in the productive Powers of Labour, and of the Order according to which its Produce is naturally distributed among the different Ranks of the People

BOOK II

Of the Nature, Accumulation, and Employment of Stock

BOOK III

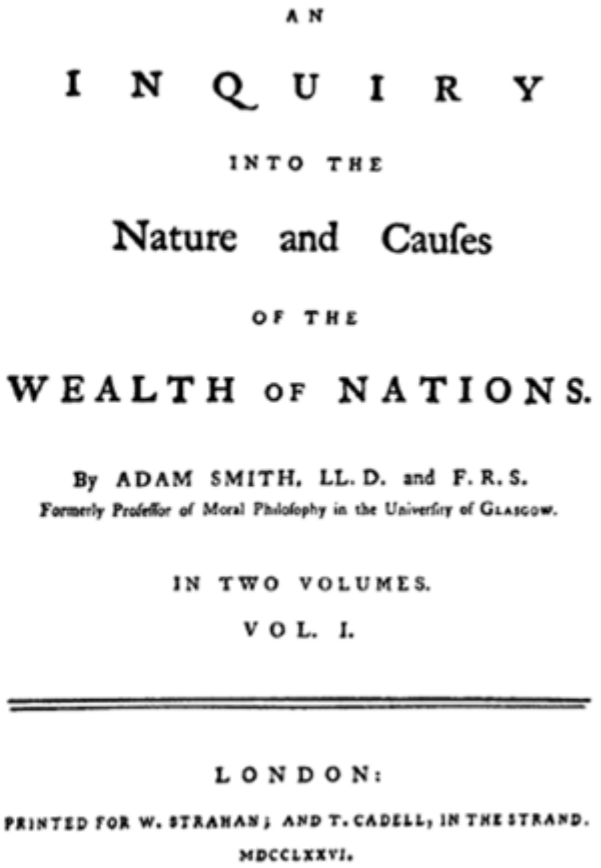
Of the different Progress of Opulence in different Nations

BOOK IV

Of Systems of political Oeconomy

BOOK V

Of the Revenue of the Sovereign or Commonwealth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1 THE annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences 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.

2 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 conveniences for which it has occasion.

3 But this proportion must in every nation be regulated by two different circumstances; first, by the skill, dexterity, and judgment with which [2] [a]its[a] labour is generally applied [b]; 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.

4 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, [c]or[c] 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 [3] lowest and poorest order, if he is frugal and industrious, may enjoy a greater share of the necessaries and conveniences of life than it is possible for any savage to acquire.

5 The causes of this improvement, in the productive powers of labour, and the order, according to which its produce is naturally distributed among the different ranks and conditions of men in the society, make the subject of the First Book of this Inquiry.

6 Whatever be the actual state of the skill, dexterity, and judgment with which labour is applied in any nation, the abundance or scantiness of its annual supply must depend, during the continuance of that state, upon the proportion between the number of those who are annually employed in useful labour, and that of those who are not so employed. The number of useful and productive labourers, it will hereafter appear, is every where in proportion to the quantity of capital stock which is employed in setting them to work, and to the particular way in which it is so employed. The Second Book, therefore, treats of the nature of capital stock, of the manner in which it is gradually accumulated, and of the different quantities of labour which it puts into motion, according to the different ways in which it is employed.

7 Nations tolerably well advanced as to skill, dexterity, and judgment, in the application of labour, have followed very different plans in the general conduct or direction of it; and those plans have not all been equally favourable to the [4] greatness of its produce. The policy of some nations has given extraordinary encouragement to the industry of the country; that of others to the industry of towns. Scarce any nation has dealt equally and impartially with every sort of industry. Since the downfal of the Roman empire, the policy of Europe has been more favourable to arts, manufactures, and commerce, the industry of towns; than to agriculture, the industry of the country. The circumstances which seem to have introduced and established this policy are explained in the Third Book.

8 Though those different plans were, perhaps, first introduced by the private interests and prejudices of particular orders of men, without any regard to, or foresight of, their consequences upon the general welfare of the society; yet they have given occasion to very different theories of political œconomy; of which some magnify the importance of that industry which is carried on in towns, others of that which is carried on in the country. Those theories have had a considerable influence, not only upon the opinions of men of learning, but upon the public conduct of princes and sovereign states. I have endeavoured, in the Fourth Book, to explain, as fully and distinctly as I can, those different theories, and the principal effects which they have produced in different ages and nations.

9 [d]To explain[d] in what has consisted the revenue of the great body of the people, or what [e]has been[e] the nature of those funds which, in different ages and nations, have supplied their annual consump-[5]tion, is [f]the object of[f] these Four first Books. The Fifth and last Book treats of

the revenue of the sovereign, or commonwealth. In this Book I have endeavoured to show; first, what are the necessary expences of the sovereign, or commonwealth; which of those expences ought to be defrayed by the general contribution of the whole society; and which of them, by that of some particular part only, or of some particular members of ᵍitᵍ; secondly, what are the different methods in which the whole society may be made to contribute towards defraying the expences incumbent on the whole society, and what are the principal advantages and inconveniencies of each of those methods: and, thirdly and lastly, what are the reasons and causes which have induced almost all modern governments to mortgage some part of this revenue, or to contract debts, and what have been the effects of those debts upon the real wealth, the annual produce of the land and labour of the society.

$$Y = \pi L$$
$$Y/N = \pi\, L/N$$

Y = National income
π = Productivity of labour
L = Labour
N = Population

Of the Causes of Improvement in the productive Powers of Labour, and of the Order according to which its Produce is naturally distributed among the different Ranks of the People

CHAPTER I

Of the Division of Labour

1 THE greatest [a]improvement[a] in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour.[1]

2 The effects of the division of labour, in the general business of society, will be more easily understood, by considering in what manner it operates in some particular manufactures. It is commonly supposed to be carried furthest in some very trifling ones; not perhaps that it really is carried further in them than in others of more importance: but in those trifling manufactures which are destined to supply the small wants of but a small number of people, the whole number of workmen must necessarily be small; and those employed in every different branch of the work can often be collected into the same [7] workhouse, and placed at once under the view of the spectator. In those great manufactures, on the contrary, which are destined to supply the great wants of the great body of the people, every different branch of the work employs so great a number of workmen, that it is impossible to collect them all into the same workhouse. We can seldom see more, at one time, than those employed in one single branch. Though [b]in such manufactures,[b] therefore, the work may really be divided into a much greater number of parts, than in those of a more trifling nature, the division is not near so obvious, and has accordingly been much less observed

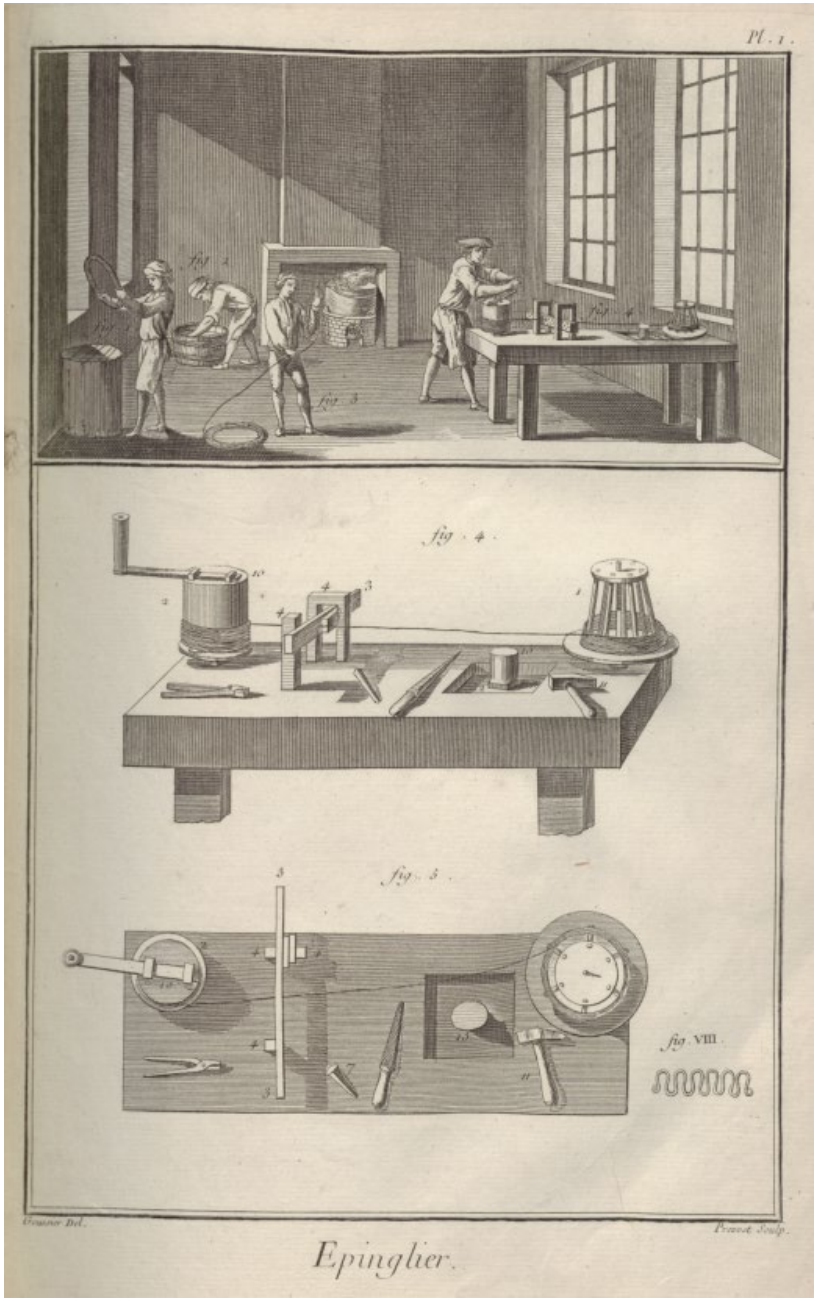
3 To take an example, therefore, from a very trifling manufacture; but one in which the division of labour has been very often taken notice of, the trade of the pin-maker; a workman not educated to this business (which the division of labour has rendered a distinct trade), nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labour has probably given occasion), could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty.[2] But in the way in which 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 straights 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 [8] two or three distinct operations; to put it on, is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations,[3] which, in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them. I have seen a small manufactory of this kind where ten men only were employed, and where some of them consequently performed two or three distinct operations. But though they were very poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins in a day.[4] There are in a pound upwards of four thousand pins of a middling size. Those ten persons, therefore, could make among them upwards of forty-eight thousand pins in a day. Each person, therefore, making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day; that is, certainly, not the two hundred and fortieth, perhaps not the four thousand eight hundredth part of what they are at present capable of performing, in consequence of [9] a proper division and combination of their different operations.

Smith explains the division of labour using the example of a factory that manufactures pins. In this factory, manufacturing is subdivided into 18 separate processes, thus increasing the productivity of labour.

10 persons = 4800 pins
1 person = 20 pins
X 240 increase in productivity

Pictures of a craft shop making pins in the time of Adam Smith. From Diderot's *Encyclopédie*, under the entry "Épinglier" (pin maker). Some claim that Smith inspired the example of the pins from the *Encyclopédie*.



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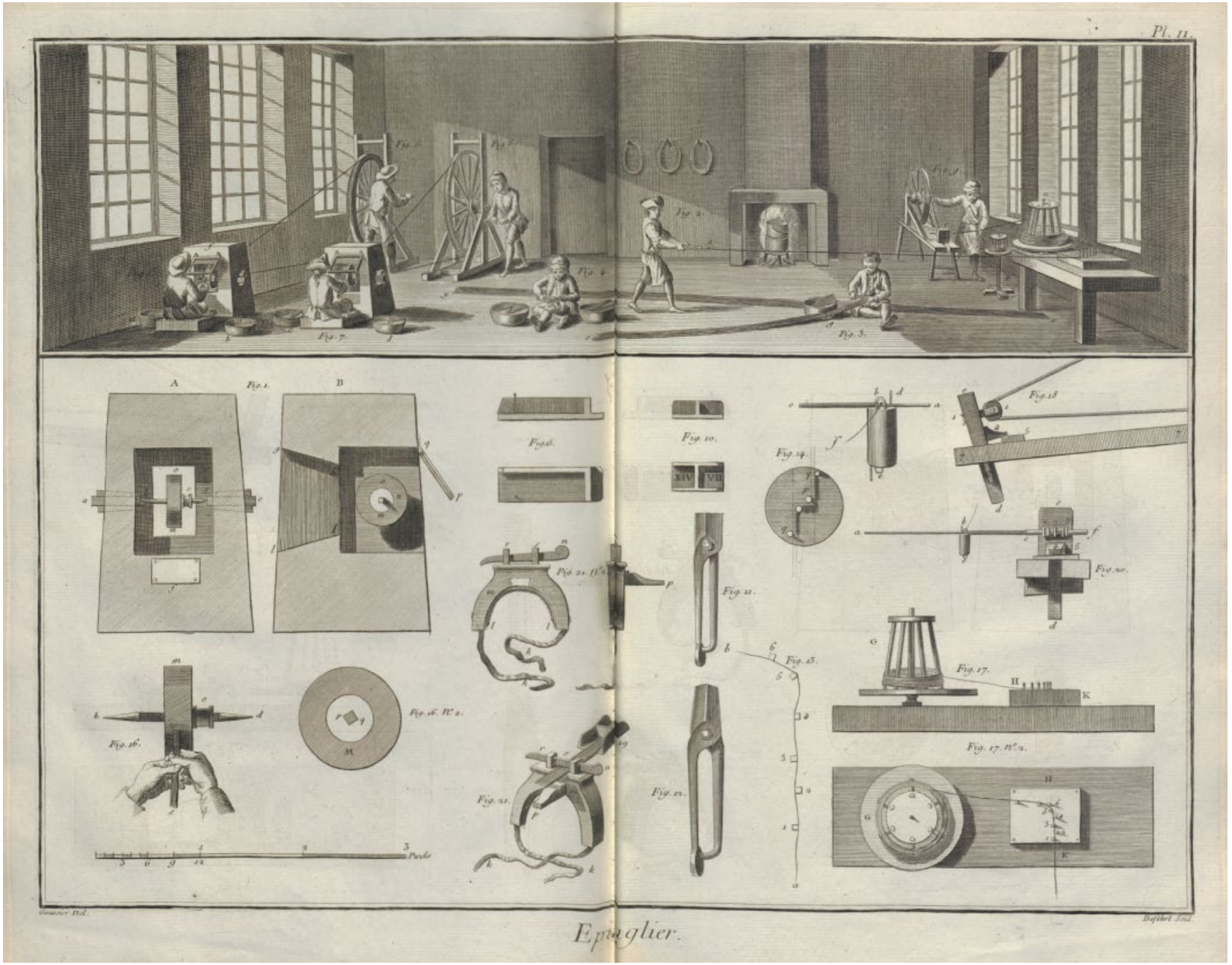
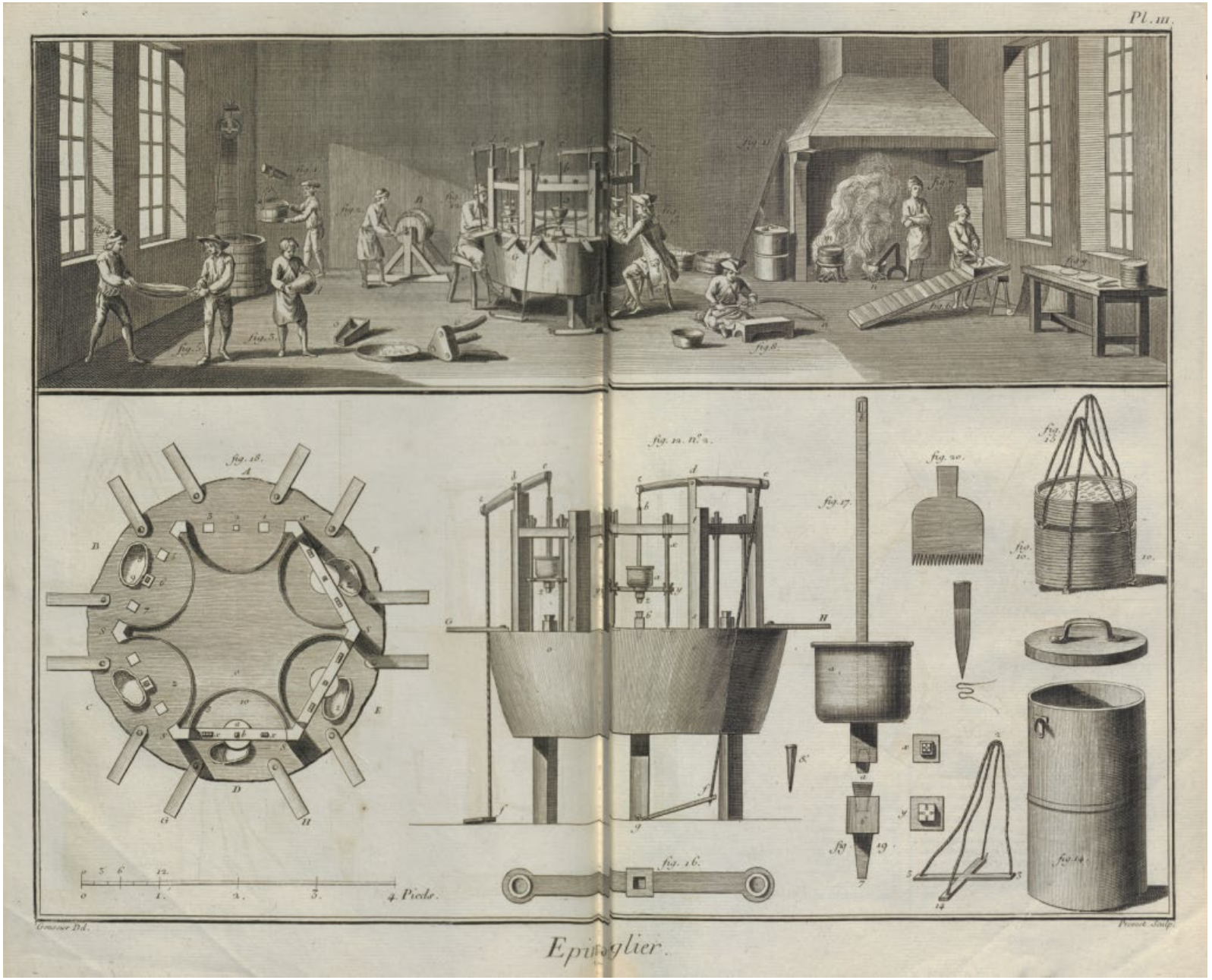

Pl. II.
Fig. 1.
Fig. 2.
Fig. 3.
Fig. 4.
Fig. 5.
Fig. 6.
Fig. 7.
A
B
Fig. 8.
Fig. 9.
Fig. 10.
Fig. 11.
Fig. 12.
Fig. 13.
Fig. 14.
Fig. 15.
Fig. 16.
Fig. 16. N°. 2.
Fig. 17.
Fig. 17. N°. 2.
Fig. 18.
Fig. 20.
Fig. 21.
Fig. 21. N°. 2.
XIV
VII
Pieds
Epinglier.


Pl. III.
fig. 18.
fig. 14. N°. 2.
fig. 17.
fig. 20.
fig. 15.
fig. 10.
fig. 16.
fig. 14.
4 Pieds.
Epinglier.

Adam Smith (1723-1790)

country can well subsist.

This great increase [of] the quantity of work, which, [in consequence of the division of labour,] [12] the same number of people are capable of performing, [k] is owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.[10]

Adam Smith (1723-1790)

6 First, the improvement of the dexterity of the workman necessarily

increases the quantity of the work he can perform, and the division of labour, by reducing every man's business to some one simple operation, and by making this operation the sole employment of his life, necessarily increases very much the dexterity of the workman. A common smith, who, though accustomed to handle the hammer, has never been used to make nails, if upon some particular occasion he is obliged to attempt it, will scarce, I am assured, be able to make above two or three hundred nails in a day, and those too very bad ones. A smith who has been accustomed to make nails, but whose sole or principal business has not been that of a nailer, can seldom with his utmost diligence make more than eight hundred or a thousand nails in a day. I have seen several boys under twenty years of age who had never exercised any other trade but that of making nails, and who, when they exerted themselves, could make, each of them, upwards of two thousand three hundred nails in a day. The making of a nail, however, is by no means one [13] of the simplest operations. The same person blows the bellows, stirs or mends the fire as there is occasion, heats the iron, and forges every part of the nail: In forging the head too he is obliged to change his tools. The different operations into which the making of a pin, or of a metal button, is subdivided, are all of them much more simple, and the dexterity of the person, of whose life it has been the sole business to perform them, is usually much greater. The rapidity with which some of the operations of those manufactures are performed, exceeds what the human hand could, by those who had never seen them, be supposed capable of acquiring.[11]

Adam Smith (1723-1790)

7 Secondly, the advantage which is gained by saving the time commonly lost in passing from one sort of work to another, is much greater than we should at first view be apt to imagine it. It is impossible to pass very quickly from one kind of work to another, that is carried on in a different place, and with quite different tools. A country weaver, who cultivates a small farm, must lose a good deal of time in passing from his loom to the field, and from the field to his loom. When the two trades can be carried on in the same workhouse, the loss of time is no doubt much less. It is even in this case, however, very considerable. A man commonly saunters a little in turning his hand from one sort of employment to another. When he first begins the new work he is seldom very keen and hearty; his mind, as they say, does not go to it, and for some time he rather trifles than applies to good purpose.[12] The [14] habit of saunter-ing and of indolent careless application, which is naturally, or rather necessarily[13] acquired by every country workman who is obliged to change his work and his tools every half hour, and to apply his hand in twenty different ways almost every day of his life; renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasions. Independent, therefore, of his deficiency in point of dexterity, this cause alone must always reduce considerably the quantity of work which he is capable of performing.[14]

considerably the quality of work which he is capable of performing.

8 Thirdly, and lastly, every body must be sensible how much labour is facilitated and abridged by the application of proper machinery. It is unnecessary to give any example.[15] I shall [l] only observe, [m]therefore,[m]

that the invention of all those machines by which labour is so much facilitated and abridged, seems to have been originally owing to the division of labour. Men are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things. But in consequence of the division of labour, the whole of every man's attention comes naturally to be directed towards some one very simple object. It is naturally to be expected, therefore, that some one or other of those who are employed in each particular branch of labour should soon find out easier and readier methods of performing their own particular work, wherever the nature of it admits of such [15] improvement.[16] A great part of the machines [n]made use of[n] in those manufactures in which labour is most subdivided, were originally the inventions of common workmen, who, being each of them employed in some very simple operation, naturally turned their thoughts towards finding out easier and readier methods of performing it.[17] Whoever has been much accustomed to visit such manufactures, must frequently have been shewn very pretty machines, which were the inventions of [o]such[o] workmen, in order to facilitate and quicken their own particular part of the work.[18] In the first fire-engines,[19] a boy was constantly employed to open and shut alternately the communication between the boiler and the cylinder, according as the piston either ascended or descended. One of those boys, who loved to play with his companions, observed that, by tying a string from the handle of the valve, which opened this communication, to another part of the machine, the valve would open and shut without his assistance, and leave him at liberty to divert himself with his play-fellows. One of the greatest improvements that has been made upon this machine,

since it was first invented, was in this manner the discovery of a boy who wanted to save his own labour.[20]

9 All the improvements in machinery, however, have by no means been the inventions of those who had occasion to use the machines. Many improvements have been made by the ingenuity of the makers of the machines, when [16] to make them became the business of a peculiar trade;[21] and some by that of those who are called philosophers or men of speculation, whose trade it is, not to do any thing, but to observe every thing; and who, upon that account, are often capable of combining together the powers of the most distant and dissimilar objects.[22] In the progress of society, philosophy or speculation becomes, like every other employment, the principal or sole trade and occupation of a particular class of citizens. Like every other employment too, it is subdivided into a great number of different branches, each of which affords occupation to a peculiar tribe or class of philosophers; and this subdivision of employment in philosophy, as well as in every other business, improves dexterity, and saves time. Each individual becomes more expert in his own peculiar branch, more work is done upon the whole, and the quantity of science is considerably increased by it.[23]

10 It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people.[24] Every workman has a great quantity of his own work to dispose of beyond what he himself has occasion for; and every other workman being exactly in the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity, or, what comes to the same thing, for the price of a great quan-[17]tity of theirs. He supplies them abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through all the different ranks of the society.

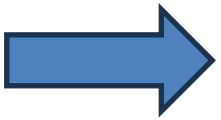
CHAPTER II

Of the Principle which gives occasion to the Division of Labour

1 THIS division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to [20] which it gives occasion.[1] It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.[2]

2 Whether this propensity be one of those original principles in human nature, of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to enquire.[3] It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts. Two greyhounds, in running down the same hare, have sometimes the appearance of acting in some sort of concert. Each turns her towards his companion, or endeavours to intercept her when his companion turns her towards himself. This, however, is not the effect of any contract, but of the accidental concurrence of their passions in the same object at that particular time.[4] Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that yours; I am willing to give this for that. When an animal wants to obtain something either of a man or of another animal, it has no other means of persuasion but to gain the favour of those whose service it requires. A puppy fawns upon its dam, and a spaniel endea-[21]vours by a thousand attractions to engage the attention of its master who is at dinner, when it wants to be fed by him. Man sometimes uses the same arts with his brethren, and when he has no other means of engaging them to act according to his inclinations, endeavours by every servile and fawning attention to obtain their good will. He has not time, however, to do this upon every

occasion. In civilized society he stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons. In almost every other race of animals each individual, when it is grown up to maturity, is intirely independent, and in its natural state has occasion for the assistance of no other living creature.[5] But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only.[6] He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from



the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their [22] 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.[7] Nobody but a beggar chuses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely. The charity of well-disposed people, indeed, supplies him with the whole fund of his subsistence. But though this principle ultimately provides him with all the necessaries of life which he has occasion for, it neither does nor can provide him with them as he has occasion for them. The greater part of his occasional wants are supplied in the same manner as those of other people, by treaty, by barter, and by purchase. With the money which one man gives him he purchases food. The old cloaths which another bestows upon him he exchanges for other old cloaths which suit him better, or for lodging, or for food, or for money, with which he can buy either food, cloaths, or lodging, as he has occasion.

4 The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause, as the effect of the division of labour.[11] The difference between the [24] most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education.[12] When they came into the world, and for the first six or eight years of their existence, they were[a], perhaps,[a] very much alike, and neither their parents nor play-fellows could perceive any remarkable difference. About that age, or soon after, they come to be employed in very different occupations. The difference of talents comes then to be taken notice of, and widens by degrees, till at last the vanity of the philosopher is willing to acknowledge scarce any resemblance. But without the disposition to truck, barter, and exchange, every man must have procured to himself every necessary and conveniency of life which he wanted. All must have had the same duties to perform, and the same work to do, and there could have been no such difference of employment as could alone give occasion to any great difference of talents.[13]

CHAPTER III

[26] *That the Division of Labour is limited by the Extent of the Market*[1]

1 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.[2] 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.

2 There are some sorts of industry, even of the lowest kind, which can be carried on no where 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.[3] 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 [27] 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.[4] Country workmen

Labour Theory of value

Benozzo di Lese di Sandro, dit GOZZOLI
Florence, vers 1420/1422 - Pistoia, 1497

Le Triomphe de Saint Thomas d'Aquin
Vers 1470 - 1475
H. : 2,30 m. ; L. : 1,02 m.

and unconscious market took over the task of regulating prices. But the habit of thinking of "value" in terms of producers' cost remained firmly rooted in the consciousness of the direct producers themselves, and was later to prove itself one of the most influential of all the economic legacies left by the Schoolmen.

R. L. Meek, (1973) *Studies in the Labour Theory of Value*, Lawrence and Wishart, London, Second edition

COMMENTARY ON THE NICOMACHEAN ETHICS
by
Thomas Aquinas

translated by
C. I. Litzinger, O.P.

Chicago: Henry Regnery Company, 1964, 2 volumes

Deinde cum dicit: quanta quaedam etc., ostendit quomodo, secundum commensurationem praedictam fit commutatio. Licet enim domus sit magis aliquid in pretio quam calciamentum, tamen aliquanta calceamenta adaequant in pretio unam domum, vel et cibum unius hominis per aliquod longum tempus. Oportet igitur ad hoc quod sit commutatio ut tanta calceamenta dentur pro una domo vel pro cibo unius hominis, quantum aedificator vel etiam agricola excedit coriarium in labore et expensis, quia si hoc non observetur, non erit commutatio rerum, neque homines sibiinvicem sua bona communicabunt. Id autem quod dictum est, scilicet quod aliqua calceamenta dentur pro una domo, non poterit esse nisi aliqualiter sint aequalia calceamenta domui.

Deinde cum dicit: oportet enim etc., assignat rationem praedictae commensurationis, quae fit per numisma. Et dicit, quod ideo possunt omnia adaequari, quia omnia possunt commensurari per aliquid unum, ut dictum est; hoc autem unum, quod omnia mensurat secundum rei veritatem est indigentia, quae continet omnia commutabilia, in quantum scilicet omnia referuntur ad humanam indigentiam; non enim appretiantur res secundum dignitatem naturae ipsorum: alioquin unus mus, quod est animal sensibile, maioris pretii esset quam una margarita, quae est res inanimata: sed rebus pretia imponuntur, secundum quod homines indigent eis ad suum usum.

980. Next [1, a, ii], at 'W certain number," he shows how exchange takes place according to the preceding commensuration. Although a house is worth more than a sandal, nevertheless, a number of sandals are equal in value to one house or the food required for one man during a long period. In order then to have just exchange, as many sandals must be exchanged for one house or for the food required for one man as the builder or the farmer exceeds the shoemaker in his labor and costs. If this is not observed, there will be no exchange of things and men will not share their goods with one another. But what has been said, that a number of sandals are exchanged for one house, is not possible unless the sandals are equated with the house in some way.

981. At "Therefore, it is" [i, a, iii] he indicates the nature of this commensuration made by means of money. He states that for this reason it is possible to equate things because all things can be measured by some one standard, as was pointed out (957). But this one standard which truly measures all things is demand. This includes all commutable things inasmuch as everything has a reference to human need. Articles are not valued according to the dignity of their nature, otherwise a mouse, an animal endowed with sense, should be of greater value than a pearl, a thing without life. But they are priced according as man stands in need of them for his own use.

Hugo Grotius
(1583 – 1645)

HVGONIS GROTII

DE IVRE BELLI AC PACIS

LIBRI TRES.

1625

2. And now in that common and current Price of Things,[7] we usually have a Regard to the Pains and Expences the Merchants and Traders have been at; and it often rises and falls all on a Sudden, according as there are more or fewer Chapmen, and according to the Plenty or Scarcity of Money or Commodities. Besides, <302> there may possibly some such Circumstances intervene, as may very justly raise or lessen the ordinary Market Price; as, the Loss we sustain, the Profit we lose, a particular Fancy for certain Things, the Favour we do one in buying or selling what we should not otherwise have bought or sold; all which Circumstances the Person we deal with ought to be acquainted with. And we may also have Regard to the Loss or Gain that arises from the Delay or the Promptness of Payment.

laborum & expensarum

tur. Hinc fit vt res tanti æſtimetur quantum pro ea communiter offerri aut dari ſolet, quod vix eſt vt non aliquam latitudinem habeat, intra quam plus minúſve dari aut exigi poſſit, niſi vbi lex certum rebus pretium ἐν σημῇ, vt Ariſtoteles loquitur, id eſt in puncto conſtituit. In communi autem illo pretio ratio haberi ſolet laborum & expenſarum quas mercatores faciunt: ſolétque ſubitò quoque mutari ex copia & inopia ementium, pecuniæ, mercium. Cæterùm poſſunt & quædam eſſe rei accidentia æſtimabilia, ob quæ res licitè ſupra aut infra commune pretium ematur vendatúrve, putà ob damnum conſequens, lucrum ceſſans, affectum peculiarem, aut ſi in gratiam alterius res vendatur ematúrve alioqui non emenda aut vendenda; quæ ipſa accidentia ei cum quo agitur indicanda ſunt. Eius quoque damni aut lucri ceſſantis ratio haberi poteſt, quod ex pretij ſolutione dilata aut anticipata naſcitur.

But the *Vulgar* Price, which is not fix'd by the Laws, admits of a certain *Latitude*, within the Compass whereof more or less may be, and often is, either taken or given, according to the *Agreement* of the Persons *dealing*; which yet for the most part, goes according to the Custom of the *Market*. Where commonly there is Regard had to the Trouble and Charges which the Tradesmen generally are at, in the bringing home and managing their Commodities, and also after what manner they are bought or sold, whether by Wholesale or Retail. Sometimes also on a sudden the Common Price is alter'd by reason of the *Plenty* or *Scarcity* of *Buyers, Money*, or the *Commodity*. For the *Scarcity* of Buyers and of Money, (which on any particular Account may happen) and the Plenty of the Commodity, may be a Means of *diminishing* the Price thereof. On the other hand, the Plenty of Buyers and of Money, and the Scarcity of the Commodity, *inhanses* the same. Thus as the Value of a Commodity is lessen'd, if it *wants* a Buyer, so the Price is augmented when the Possessor is solicited to sell what otherwise he would not have parted with. Lastly, it is likewise to be regarded, whether the Person offers *ready Money*, or desires *Time* for Payment; for Allowance of *Time* is Part of the *Price*.

VI. Vulgar Price. L. N. N. l. 5. c. 1. §9.

pere.

VI. ENIMVERO vulgare pretium, quod per leges non eſt taxatum, habet aliquam latitudinem, intra quam plus minuſve dari & accipi poteſt ac ſolet, prout inter contrahentes fuit conventum. Quod tamen fere ſequitur uſum fori. Ubi ſolet haberi ratio laborum & expenſarum, quas mercatores communiter faciunt in mercibus adportandis & tractandis; necnon quo modo ematur aut vendatur, in magna quantitate, an minutatim. Subito quoque interdum mutatur commune pretium ex copia aut paucitate ementium, pecuniæ, aut mercium. Nam paucitas ementium & pecuniæ, (ex peculiari cauſa emergens) &

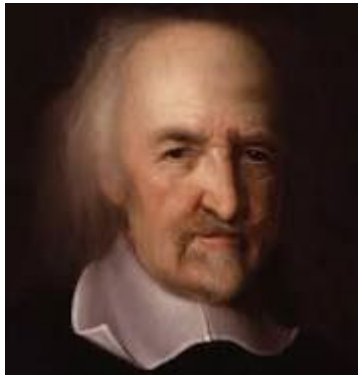
Pretium ex uſu fori ſuam habet latitudinem. c. 1. § 10.

S. PUFENDORFII
DE
OFFICIO
HOMINIS & CIVIS
JUXTA
Legem Naturalem
LIBRI DUO.

On the Duty of Man and Citizen According to Natural Law **1673**

Samuel Pufendorf
(1632-1694)

laborum & expensarum as "Trouble and Charges"



Thomas Hobbes
(1588-1679)

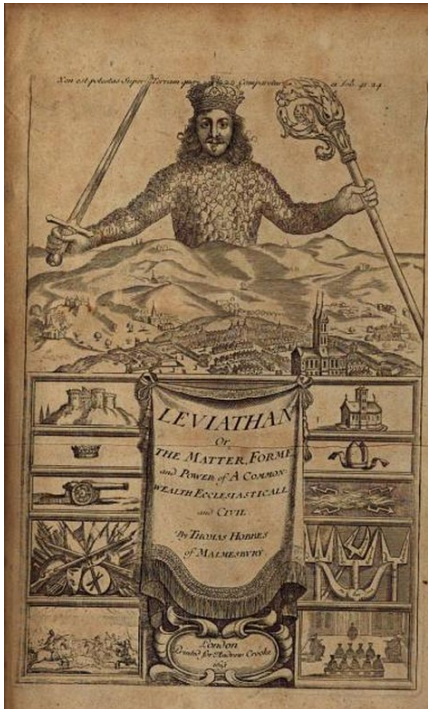
THE NUTRITION of a Common-wealth conſiſteth, in the *Plenty*, and *Diſtribution* of *Materials* conducing to Life: In *Concoction*, or *Preparation*; and (when concocted) in the *Conveyance* of it, by convenient conduits, to the Publique uſe.

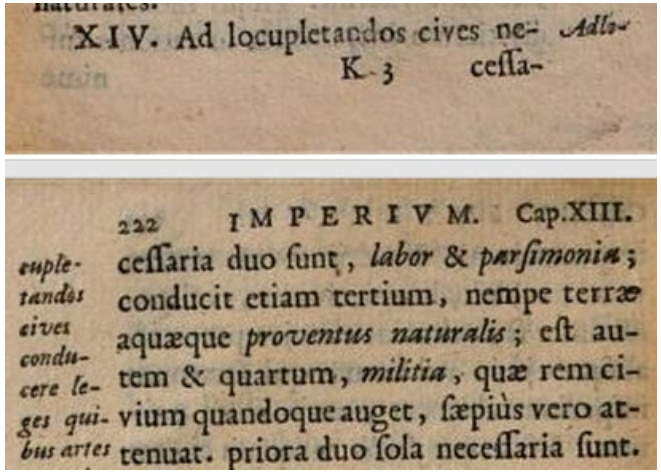
The Nutriſtment of a Common-wealth conſiſteth in the Commodities of Sea and Land.

As for the Plenty of Matter, it is a thing limited by Nature, to thoſe commodities, which from (the two breaſts of our common Mother) Land, and Sea, God uſually either freely giveth, or for labour ſelleth to man-kind.

For the Matter of this Nutriment, conſiſting in Animals, Vegetals and Minerals, God hath freely layd them before us, in or near to the face of the Earth; ſo as there needeth no more but the labour, and induſtry of receiving them. In ſomuch as Plenty dependeth (next to Gods favour) meerly on the labour and induſtry of men.

Leviathan 1659




XIV. Ad locupletandos cives ne- *Adlo-*
K 3 ceſſa-

222 IMPERIVM. Cap. XIII.

euple-tandos eives conduce-re le-ges qui-bus artes

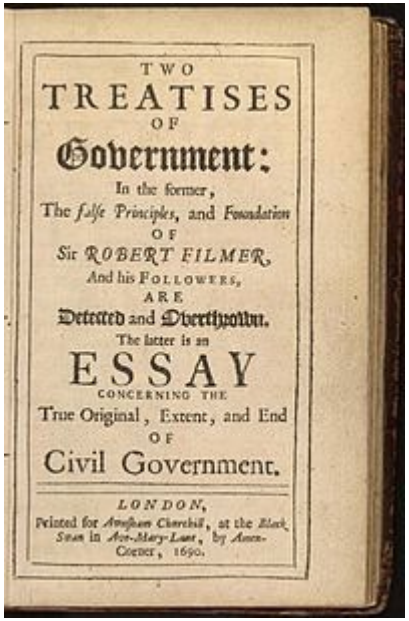
ceſſaria duo ſunt, *labor* & *parſimonia*; conducit etiam tertium, nempe terræ aquæque *proventus naturalis*; eſt autem & quartum, *militia*, quæ rem civium quandoque auget, ſæpiùs vero attenuat. priora duo ſola neceſſaria ſunt.

there are two things necessary to the enriching of Subjects, Labour and thrift (*labor & parsimonia*)

Elementa philosophica de cive

Philosophical Rudiments concerning Government and Society

1642



TWO
TREATISES
OF
Government:
In the former,
The *falſe Principles*, and *Foundation*
OF
Sir ROBERT FILMER,
And his FOLLOWERS,
ARE
Detected and Overthrown.
The latter is an
ESSAY
CONCERNING THE
True Original, Extent, and End
OF
Civil Government.

LONDON,
Printed for *Awnſham Churchill*, at the *Black Swan* in *Ave-Mary-Lane*, by *Amen-Corner*, 1690.

40. Nor is it ſo ſtrange as perhaps before conſideration it may appear, that the Property of labour ſhould be able to over-ballance the Community of Land. For 'tis Labour indeed that puts the difference of value on every thing; and let any one conſider, what the difference is between an Acre of Land planted with Tobacco, or Sugar, ſown with Wheat or Barley; and an Acre of the ſame Land lying in common, without any Husbandry upon it; and he will find, that the improvement of labour makes the far greater part of the value. I think it will be but a very modeſt Computation to ſay, that of the Products of the Earth uſeful to the Life of Man $\frac{9}{10}$ are the effects of labour: nay, if we will rightly eſtimate things as they come to our uſe, and caſt up the ſeveral Expences about them, what in them is purely owing to Nature, and what to labour, we ſhall find, that in moſt of them $\frac{99}{100}$, are wholly to be put on the account of labour.

45. Thus Labour in the Beginning, gave a Right of Property, where-ever any one was pleaſed to imploy it, upon what was common, which remained, a long while, the far greater part, and is yet more than Mankind makes uſe of. Men, at firſt, for the moſt part, contented themſelves with what un-aſſiſted Nature offered to their Neceſſities; and though afterwards, in ſome parts of the World, where the Increaſe of People and Stock, with the Uſe of Money, had made Land ſcarce, and ſo of ſome Value, the ſeveral Communities ſettled the Bounds of their diſtinct Territories, and by Laws within themſelves, regulated the Properties of the private Men of their Society, and ſo, by Compact and Agreement, ſettled

ſettled the Property with Labour and Induſtry began; and the Leagues that have been made be-

John Locke (1632 –1704)

Sir William Petty
1623-1687

A

TREATISE

OF

Taxes & Contributions.

Shewing the Nature and Measures of

Crown-Lands.	Penalties.
Assessements.	Monopolies.
Customs.	Offices.
Poll-Moneys.	Tythes.
Lotteries.	Raising of Coins.
Benevolence.	Harth-Money.
	Excize, &c.

With several intersperst Discourses and Digressions concerning

Warres.	Beggars.
The Church.	Ensurance.
Universities.	Exportation of {Money. Wool.}
Rents & Purchases.	Free-Ports.
Usury & Exchange.	Coins.
Banks & Lombards.	Housing.
Registries for Conveyances.	Liberty of Conscience, &c.

The same being frequently applied to the present State and Affairs of
IRELAND.

London, Printed for *N. Brooke*, at the Angel in *Cornhill*. 1662.

18. Our Silver and Gold we call by severall names, as in *England* by pounds, shillings, and pence, all which may be called and understood by either of the three. But that which I would say upon this matter is, that all things ought to be valued by two natural Denominations, which is Land and Labour; that is, we ought to say, a Ship or garment is worth such a measure of Land, with such another measure of Labour; forasmuch as both Ships and Garments were the creatures of Lands and mens Labours thereupon: This being true, we should be glad to finde out a natural Par between

Land and Labour, so as we might express the value by either of them alone as well or better then by both, and reduce one into the other as easily and certainly as we reduce pence into pounds. Wherefore we would be glad to finde the natural values of the Fee simple of Land, though but no better then we have done that of the *usus fructus* above-mentioned, which we attempt as followeth.

ESSAI
SUR LA NATURE DU COMMERCE EN GÉNÉRAL.

TRADUIT DE L'ANGLOIS.

en réalité composé par de Cantillon

A LONDRES,
Chez FLETCHER GYLES;
dans Holborn

M. DCC. LV.

PREMIERE PARTIE.

CHAPITRE PREMIER.

De la Richeſſe.

LA Terre eſt la ſource ou la matiere d'où l'on tire la Richeſſe; le travail de l'Homme eſt la forme qui la produit: & la Richeſſe en elle-même, n'eſt autre

CHAPITRE X.

Le prix & valeur intrinſeque d'une choſe en général eſt la meſure de la terre & du travail qui entre dans ſa production.

1*st Answer*, If this Bullion, or Coin, is carried out to purchase *Raw Materials*, for the Imployment of our People, the Trade is good and beneficial to the State, because it creates Industry, and promotes Labour. For Industry and Labour are the only real Riches; Money being merely the Ticket or Sign belonging to them; and the Use of Money is to Certify, that the Person possessing that Piece of Coin, hath likewise been in Possession of a *certain Quantity of Labour*, which he hath transferred into other Hands, and now retains the *Sign* of it.—Money therefore being nothing more than a Certificate of Labour, it necessarily follows, that national Industry will always command as many of these Certificates, *i. e.* as much Gold and Silver, as are wanted for these Purposes.

Josiah Tucker (1713-1799)
Elements of Commerce
1755

A

MODEST INQUIRY

INTO THE

NATURE AND NECESSITY

OF A

PAPER CURRENCY.

Quid asper
Utile nummus habet; patriæ carisque propinquis
Quantum elargiri deceat.

PERSIUS.

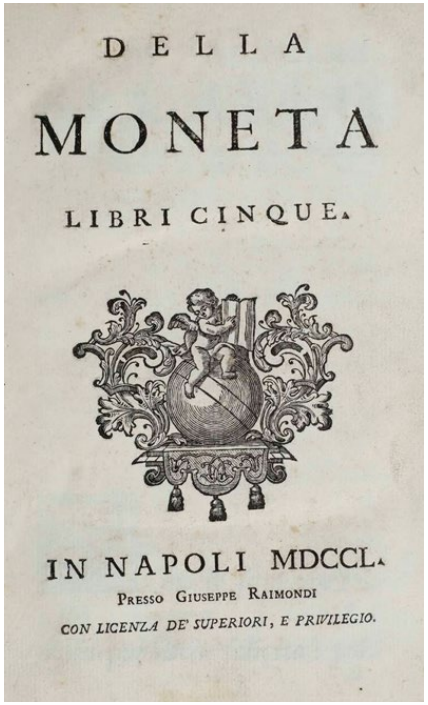
FIRST PRINTED AT PHILADELPHIA IN THE YEAR 1729.

ties, with abundance or facility.

For many ages, those parts of the world which are engaged in commerce, have fixed upon gold and silver as the chief and most proper materials for this medium; they being in themselves valuable metals for their fineness, beauty, and scarcity. By these, particularly by silver, it has been usual to value all things else. But as silver itself is of no certain permanent value, being worth more or less according to its scarcity or plenty, therefore it seems requisite to fix upon something else, more proper to be made a *measure of values*, and this I take to be *labor*.*

Benjamin Franklin
(1706-1790)

Ferdinando Galiani
(1728-1787)
Della moneta (1751)


DELLA

MONETA

LIBRI CINQUE.

IN NAPOLI MDCCL.

PRESSO GIUSEPPE RAIMONDI

CON LICENZA DE' SUPERIORI, E PRIVILEGIO.

Ragioni componenti il valore.

Il valore adunque è una ragione ; e queſta compoſta da due ragioni , che con queſti nomi eſprimo d' *Utilità* , e *Rarità*. Quel ch' io m' intenda , acciocchè ſulle voci non ſi diſputi , l'andrò con eſempli dichiarando. Egli è evidente , che l'aria , e l'acqua , che ſono elementi utiliſſimi all' umana vita , non hanno valore alcuno, perchè manca loro la rarità : e per contrario un ſacchetto d' arena de' lidi del Giappone rara coſa ſarebbe , ma poſto che non aveſſe utilità particolare , non avrebbe valore.

La quantità della materia.

Paſſando ora a dire ſulla quantità della coſa , dico che ſonovi due claſſi di corpi. In alcuni ella dipende dalla diverſa abbondanza , con cui la

39

la natura gli produce : in altri ſolo dalla varia fatica , ed opera che vi s' impiega. E' la prima

fatica

CHAPTER IV

Of the Origin and Use of Money[1]

11 It is in this manner that money has become in all civilized nations the universal instrument of commerce, by the intervention of which goods of all kinds are bought and sold, or exchanged for one another.[30]

12 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.

13 [42] 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.[31]

14 In order to investigate the principles which regulate the exchangeable value of commodities, I shall endeavour to shew,

15 First, what is the real measure of this exchangeable value; or, wherein consists the real price of all commodities,

16 Secondly, what are the different parts of which this real price is composed or made up.

17 And, lastly, what are the different circumstances which sometimes raise some or all of these different parts of price above, and sometimes sink them below their natural or ordinary rate; or, what are the causes which sometimes hinder the market price, that is, the actual price of commodities, from coinciding exactly with what may be called their natural price.

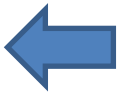
CHAPTER V

Of the real and nominal Price of Commodities, or of their Price in Labour, and their Price in Money

1 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.[1] 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 [44] 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.[2] Labour, therefore, is the real measure of the exchangeable value of all commodities.[3]

2 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.[4] 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.[5] 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.[6] Labour was the first price, the original purchase-money that was paid for all things.[7] It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased;[8] 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.

4 But though labour be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labour. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account.[10] There may be more labour in an hour's hard work than in two hours easy business; or in an hour's application to a trade which it cost ten years labour to learn, than in a [46] month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging indeed the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life.



CHAPTER VI

Of the component Parts of the Price of Commodities

1 IN that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another.[1] If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally ex-[71]change for or be worth two deer. It is natural that what is usually the produce of two days or two hours labour, should be worth double of what is usually the produce of one day's or one hour's labour.

2 If the one species of labour should be more severe than the other, some allowance will naturally be made for this superior hardship;[2] and the produce of one hour's labour in the one way may frequently exchange for that of two hours labour in the other.

4 In this state of things[a], the whole produce of labour belongs to the labourer; and[a] the quantity of labour commonly employed in acquiring or producing any commodity, is the only circumstance which can regulate the quantity of la-[72]bour which it ought commonly to purchase, command, or exchange for.

5 As soon as stock has accumulated in the hands of particular persons, 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 labour adds to the value of the materials. In exchanging the complete manufacture either for money, for labour, or for other goods, over and above what may be sufficient to pay the price of the materials, and the wages of the workmen, something must be given for the profits of the undertaker of the work who hazards his stock in this adventure.[4] 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; and he could have no interest to employ a great stock rather than a small one, unless his profits were to bear some proportion to the extent of his stock.

were to bear some proportion to the extent of his stock.

6 The profits of stock, it may perhaps be thought, are only a different name for the wages of a particular sort of labour, the labour of inspection and direction. They are, however, altogether different, are regulated by quite differ-[73]ent principles, and bear no proportion to the quantity, the hardship, or the ingenuity of this supposed labour of inspection and direction. They are regulated altogether by the value of the stock employed, and are greater or smaller in proportion to the extent of this stock. Let us suppose, for example, that in some particular place, where the common annual profits of manufacturing stock are ten per cent. there are two different manufactures, in each of which twenty workmen are employed at the rate of fifteen pounds a year each, or at the expence of three hundred a year in each manufactory. Let us suppose too, that the coarse materials annually wrought up in the one cost only seven hundred pounds, while the finer materials in the other cost seven thousand. The capital annually employed in the one will in this case amount only to one thousand pounds; whereas that employed in the other will amount to seven thousand three hundred pounds. At the rate of ten per cent. therefore, the undertaker of the one will expect an yearly profit of about one hundred pounds only; while that of the other will expect about seven hundred and thirty pounds. But though their profits are so very different, their labour of inspection and direction may be either altogether or very nearly the same. In many great works, almost the whole labour of this kind is [b] committed to some principal clerk. His wages properly express the value of this labour of inspection and direction. Though in settling them some regard is had commonly, not only to his [74] labour and skill, but to the trust which is reposed in him, yet they never bear any regular proportion to the capital of which he oversees the management; and the owner of this capital, though he is thus discharged of almost all labour, still expects that his profits should bear a regular proportion to [c]his capital[c]. In the price of commodities, therefore, the profits of stock [d]constitute a component part[d] altogether different from the wages of labour, and regulated by quite different principles.

8 As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost [g]the labourer[g] only the trouble of gathering them, come[h], even to him,[h] to have an additional price fixed upon them. [i]He[i] must then pay for the licence to gather [75] them; and [j]must give up to the landlord a portion of what his labour either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities makes a third component part.[15]

Wages + profits + land rent

$$p_n = wL + r_eT + rK$$

CHAPTER VII

Of the natural and market Price of Commodities[1]

7 [84] 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.

8 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;[7] since it may be 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.[8]

9 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 [a]either[a] the greatness of the deficiency[b], or the wealth and wanton luxury of the competitors, happen to animate[b] more or less the eagerness of [85] [c]the[c] competition. [d]Among competitors of equal wealth and luxury the[d] 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 [e]them[e]. 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 [f]in[f] that of old iron.[9]

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price.

The natural price, therefore, is, as it were, the central price, to which the prices of all commodities are continually gravitating.[10] Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this center of repose and continuance, they are constantly tending towards it.

PART I

Inequalities arising from the Nature of the Employments themselves

1 The five following are the principal circumstances which, so far as I have been able to observe, make up for a small pecuniary gain in some employments, and counter-balance a great one in others: first, the agreeableness or disagreeableness of the employments themselves; secondly, the easiness and cheapness, or the difficulty and expence of learning them; thirdly, the constancy or inconstancy of employment in them; fourthly, the small or great trust which must be reposed in those who exercise them; and, fiftly, the probability or improbability of success in them.[3]

than in other trades.

34 Of the five circumstances, therefore, which vary the wages of labour, two only affect the profits of stock; the agreeableness or disagreeableness of the business, and the risk or security with which it is attended.[29] In point of

CHAPTER XI

Of the Rent of Land

country.

5 The rent of land, therefore, considered as the price paid for the use of the land, is naturally a monopoly price.[6] It is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but to what the farmer can afford to give.[7]

[407]

BOOK II

Of the Nature, Accumulation, and Employment of Stock

4 As the accumulation of stock is previously necessary for carrying on this great improvement in the productive powers of labour, so that accumulation naturally leads to this improvement. The person who employs his stock in maintaining labour, necessarily wishes to employ it in such a manner as to produce as great a quantity of work as possible. He endeavours, therefore, both to make among his workmen the most proper distribution of employment, and to furnish them with the best machines which he can either invent or afford to purchase.[3] His abilities in both these respects are generally in proportion to the extent of his stock, or to the number of people whom it can employ. The quantity of industry, therefore, not only increases in every country with the increase of the stock which employs it, but, in consequence of that increase, the same quantity of industry produces a much greater quantity of work.

[1]

CHAPTER III

Of the Accumulation of Capital, or of productive and unproductive Labour

1 THERE is one sort of labour which adds to the value of the subject upon which it is bestowed: There is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive* labour.[1] Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own [2] maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he, in reality, costs him no expence, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed. But the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers: He grows poor, by maintaining a multitude of menial servants. The labour of the latter, however, has its value, and deserves its reward as well as that of the former. But the labour of the manufacturer fixes and realizes itself in some particular subject or vendible commodity, which lasts for some time at least after that labour is past.[2] It is, as it were, a certain quantity of labour stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or what is the same thing, the price of that subject, can afterwards, if necessary, put into motion a quantity of labour equal to that which had originally produced it.[3] The labour of the menial servant, on the contrary, does not fix or realize itself in any particular subject or vendible commodity. His services generally perish in the very instant of their performance, and seldom leave any trace or value behind them, for which an equal quantity of service could afterwards be procured.[4]

officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers.[5] They are the servants of the publick, and are maintained by a part of the annual produce of the industry of other people.[6] Their service, how honourable, how useful,[7] or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. The protection, security, and defence of the commonwealth, the effect of their labour this year, will not purchase its protection, security, and defence, for the year to come. In the same class must be ranked, some both of the gravest and most important, and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, &c.[8] The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour;[9] and that of the noblest and most useful, produces nothing which could afterwards purchase or procure an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production.[10]

[138] BOOK IV

Of Systems of political Oeconomy

INTRODUCTION

1 POLITICAL œconomy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects; first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the publick services. It proposes to enrich both the people and the sovereign.

2 The different progress of opulence in different ages and nations, has given occasion to two different systems of political œconomy, with regard to enriching the people. The one may be called the system of commerce, the other that of agriculture. I shall endeavour to explain both as fully and distinctly as I can, and shall begin with the system of commerce. It is the modern system, and is best understood in our own country and in our own times.

CHAPTER I

Of the Principle of the commercial, or mercantile System[1]

factures into ours. Nations, accordingly, seldom fail to retaliate in the manner. The French have been particularly forward to favour their own manufactures by restraining the importation of such foreign goods as could come into competition with them. In this consisted a great part of the policy of Mr. Colbert,[49] who, notwithstanding his great abilities, seems in this case to have been imposed upon by the sophistry of merchants and manufacturers, who are always demanding a monopoly against their countrymen. It is at present the opinion of the most intelligent men in France that his operations of this kind have not been beneficial to his country.[50] That minister, by the tarif of 1667, imposed very high duties

[209] CHAPTER III

Of the extraordinary Restraints upon the Importation of Goods of almost all Kinds, from those Countries with which the Balance is supposed to be disadvantageous

[a]PART I

Of the Unreasonableness of those Restraints even upon the Principles of the Commercial System[a]

The invisible hand

WN

[176] CHAPTER II

Of Restraints upon the Importation [a]from foreign Countries of such Goods[a] as can be produced at Home

9 But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value.[12] As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestick industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can.[13] He generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it. By preferring the support of domestick to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.[14] Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the publick good. It is an [182] affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.[15]

TMS

PART IV

Of the Effect of Utility upon the Sentiment of Approbation

[a]Consisting of One Section[a]

and to maintain a greater multitude of inhabitants. It is to no purpose, that the proud and unfeeling landlord views his extensive fields, and without a thought for the wants of his brethren, in imagination consumes himself the whole harvest that grows upon them. The homely and vulgar proverb, that the eye is larger than the belly, never was more fully verified than with regard to him. The capacity of his stomach bears no proportion to the immensity of his desires, and will receive no more than that of the meanest peasant.[6] The rest he is obliged to distribute among those, who prepare, in the nicest manner, that little which he himself makes use of, among those who fit up the palace in which this little is to be consumed, among those who provide and keep in order all the different baubles and trinkets, which are employed in the oeconomy of greatness; all of whom thus derive from his luxury and caprice, that share of the necessaries of life, which they would in vain have expected from his humanity or his justice. The produce of the soil maintains at all times nearly that number of inhabitants which it is capable of maintaining. The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an invisible hand[7] to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species. When Providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in the partition. These last too enjoy their share of all that it produces. In what constitutes the real happiness of human life, they are in no respect inferior to those who would seem so much above them. In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for.

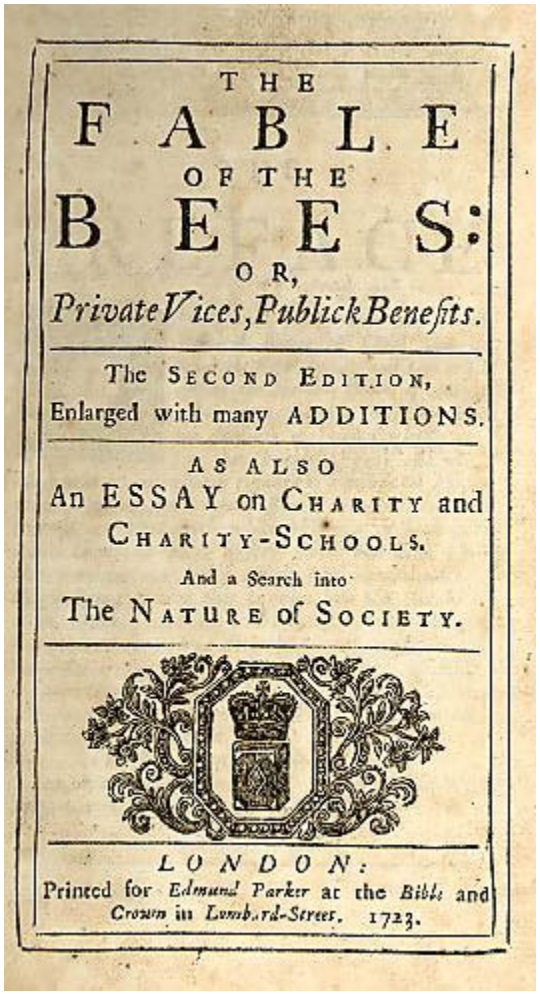
Non intended consequences

The invisible hand and the role of self-interest

The natural effort of every individual to better his own condition,[32] when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security. In Great Britain industry is perfectly secure; and though [320] it is far from being perfectly free, it is as free or freer than in any other part of Europe.

The invisible hand and the role of self-interest

Bernard de Mandeville
(1670 –1733)



THE
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OF THE
BEES:
OR,
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And a Search into
The NATURE of SOCIETY.

LONDON:
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Crown in *Lombard-Street*. 1723.

THE [1]

GRUMBLING HIVE:

OR,

KNAVES *turn'd Honest.**

A Spacious Hive well stockt with Bees,
That liv'd in Luxury and Ease;
And yet as fam'd for Laws and Arms,
As yielding large and early Swarms;
Was counted the great Nursery
Of Sciences and Industry.
No Bees had better Government,
More Fickleness, or less Content:
They were not Slaves to Tyranny,
Nor rul'd by wild *Democracy*;
But Kings, that could not wrong, because [2]
Their Power was circumscrib'd by Laws.

*: or, KNAVES *turn'd Honest*] *om. in heading, although present on title-page, 05*

1522.1 B

The invisible hand and the role of self-interest

[3] VAST Numbers throng'd the fruitful Hive;
Yet those vast Numbers made 'em thrive;
Millions endeavouring to supply
Each other's Lust and Vanity;
While other Millions were employ'd,
To see their Handy-works destroy'd;
They furnish'd half the Universe;
Yet had more Work than Labourers.

Of their good-natur'd needless Neighbour.
(*B.*) These were call'd Knaves, but bar the Name,
The grave Industrious were the same:

All Trades and Places knew some Cheat,
No Calling was without Deceit.

THUS every Part was full of Vice,
Yet the whole Mass a Paradise;
Flatter'd in Peace, and fear'd in Wars,
They were th' Esteem of Foreigners,
And lavish of their Wealth and Lives,
The Balance of all other Hives.
Such were the Blessings of that State;
Their Crimes conspir'd to make them [a] Great
(*F.*) And Virtue, who from Politicks
Had learn'd a Thousand Cunning Tricks,
Was, by their happy Influence,
Made Friends with Vice: And ever since,
(*G.*) The worst of all the Multitude
Did something for the Common Good.

(*I.*) THE Root of Evil, Avarice,
That damn'd ill-natur'd baneful Vice,
Was Slave to Prodigality,
(*K.*) That noble Sin; (*L.*) whilst Luxury
Employ'd a Million of the Poor,
(*M.*) And odious Pride a Million more:
(*N.*) [b] Envy it self, and Vanity,
Were Ministers of Industry;
Their darling Folly, Fickleness,
In Diet, Furniture and Dress,
That strange ridic'lous Vice, was made
The very Wheel that turn'd the Trade.

people.

50 In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a "few very" simple operations; frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments.[46] The man whose whole life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become.[47] The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country, he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war.[48] The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard with abhorrence the irregular, [183] uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and renders him incapable of exerting his strength with vigour and perseverance, in any other employment than that to which he has been bred. His dexterity at his own particular trade seems, in this manner, to be acquired at the expence of his intellectual, social, and martial virtues. But in every improved and civilized society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it.[49]

The negative effects of the division of labour and the role of education

MODERN TIMES, United Artists, 1936. Directed by Charlie Chaplin

of the annual produce of its land and labour.

51 All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord.[59] Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society.[60] According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing [43] an exact administration of justice;[61] and, thirdly, the duty of erecting and maintaining certain publick works and certain publick institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.[62]

The system of natural liberty

The role of government

BOOK V

Of the Revenue of the Sovereign or Commonwealth

CHAPTER I

Of the Expences of the Sovereign or Commonwealth

PART FIRST

Of the Expence of Defence

PART II

Of the Expence of Justice

PART III

Of the Expence of publick Works and publick Institutions

1 The third and last duty of the sovereign or commonwealth is that of erecting and maintaining those publick institutions and those publick works, which, though they may be in the highest degree advantageous to a great society, are, how-[93]ever, of such a nature, that the profit could never repay the expence to any individual or small number of individuals, and which it, therefore, cannot be expected that any individual or small number of individuals should erect or maintain.[1] The performance of this duty requires too very different degrees of expence in the different periods of society.

ARTICLE I

Of the publick Works and Institutions for facilitating the Commerce of the Society

[a]And, first, of those which are necessary for facilitating Commerce in general[a]

1 That the erection and maintenance of the publick works which facilitate the commerce of any country, such as good roads, bridges, navi-[94] gable canals, harbours,[1] &c. must require very different degrees of expence in the different periods of society, is evident without any proof.

[a]Of the Publick Works and Institutions which are necessary for facilitating particular Branches of Commerce

ARTICLE II

Of the Expence of the Institutions for the Education of [a] Youth[1]

1 The institutions for the education of the youth may, in the same manner, furnish a revenue sufficient for defraying their own expence. The fee or

ARTICLE III

Of the Expence of the Institutions for the Instruction of People of all Ages

1 The institutions for the instruction of people of all ages are chiefly those for religious instruction. This is a species of instruction of which the object is not so much to render the people good citizens in this world, as to prepare them for another and a better world in a life to come. The teachers

PART IV

Of the Expence of supporting the Dignity of the Sovereign

1 Over and above the [a]expence[a] necessary for enabling the sovereign to perform his several duties, a certain expence is requisite for the support of his dignity. This expence varies [238] both with the different periods of improvement, and with the different forms of government.

CHAPTER II

Of the Sources of the general or publick Revenue of the Society

1 The revenue which must defray, not only the expence of defending the society and of supporting the dignity of the chief magistrate, but all the other necessary expences of government, for which the constitution of the state has not provided any particular revenue, may be drawn, either, first, from some fund which peculiarly belongs to the sovereign or commonwealth, and which is independent of the revenue of the people; or, secondly, from the revenue of the people.

PART I

Of the Funds or Sources of Revenue which may peculiarly belong to the Sovereign or Commonwealth

Of Taxes

1 The private revenue of individuals, it has been shewn in the first book of this inquiry, arises ultimately from three different sources; Rent, Profit, and Wages.[1] Every tax must finally be paid from some one or other of those three different sorts of revenue, or from all of them indifferently. I shall endeavour to give the best account I can, first, of those taxes which, it is intended, should fall upon rent; secondly, of those which, it is intended, should fall upon profit; thirdly, of those which, it is intended, should fall upon wages; and, fourthly, of those which, it is intended, should fall indifferently upon all those three different sources of private revenue. The particular consideration of each of these four different sorts of taxes will divide the second part of the present chapter into four articles, three of which will require several other subdivisions. Many of those taxes, it will appear from the following review, are not finally paid from the fund, or source of revenue, upon which it was intended they should fall.

2 Before I enter upon the examination of particular taxes, it is necessary to premise the four following maxims with regard to taxes in general.

3 I. The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the [256] revenue which they respectively enjoy under the protection of the state. The expence of government

4 II. The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself. The

5 III. Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay; or, when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury, are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them by little and little, as he

6 IV. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the publick treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings into the publick treasury, in the four following ways. First, the levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the [258] tax, and whose perquisites may impose another additional tax upon the people. Secondly, it may obstruct the industry of the people, and discourage them from applying to certain branches of business which might give maintenance and employment to great multitudes. While it obliges the people to pay, it may thus diminish, or perhaps destroy some of the funds, which might enable them more easily to do so. Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have received from the employment of their capitals. An injudicious tax offers a great temptation to smuggling.[3] But the penalties of smuggling must rise in proportion to the temptation. The law, contrary to all the ordinary principles of justice, first creates the temptation, and then punishes those who yield to it; and it commonly enhances the punishment too in proportion to the very circumstance which ought certainly to alleviate it, the temptation to commit the crime*. Fourthly, by subjecting the people to the frequent visits, and the odious examination of the tax-gatherers,[4] it may expose them to much unnecessary trouble, vexation, and oppression; and though vexation is not, strictly speaking, expence, it is certainly equivalent to the expence at which every man would be willing to redeem himself from it. It is in some one or other of these four different ways that taxes [259] are frequently so much more burdensome to the people than they are beneficial to the sovereign.

The four maxims of taxation:

- Proportionality
- Certainty
- Convenience
- Expediency

CHAPTER III

Of publick Debts

54 The proprietor of land is interested for the sake of his own revenue to keep his estate in as good condition as he can, by building and repairing his tenants houses, by making and maintaining the necessary drains and enclosures, and all those other expensive improvements which it properly belongs to the landlord to make and maintain.[54] But by different land-taxes the re-[430]venue of the landlord may be so much diminished; and by different duties upon the necessaries and conveniencies of life, that diminished revenue may be rendered of so little real value, that he may find himself altogether unable to make or maintain those expensive improvements. When the landlord, however, ceases to do his part, it is altogether impossible that the tenant should continue to do his. As the distress of the landlord increases, the agriculture of the country must necessarily decline.

55 When, by different taxes upon the necessaries and conveniencies of life, the owners and employers of capital stock find, that whatever revenue they derive from it, will not, in a particular country, purchase the same quantity of those necessaries and conveniencies, which an equal revenue would in almost any other; they will be disposed to remove to some other.[55] And when, in order to raise those taxes, all or the greater part of merchants and manufacturers; that is, all or the greater part of the employers of great capitals, come to be continually exposed to the mortifying and vexatious visits of the tax-gatherers;[56] this disposition to remove will soon be changed into an actual removal. The industry of the country will

upon her.

59 [434] When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and compleatly paid. The liberation of the publick revenue, if it has ever been brought about at all, has always been brought about by a bankruptcy; sometimes by an avowed one, but always by a real one, though frequently by a pretended payment.

End of Lecture