

Adam Smith – a Primer

SUMMARY

- The wealth of a nation is not, as the mercantilists believed, the quantity of gold and silver in its vaults, but the total of its production and commerce – what today we would call gross domestic product.
- In a free exchange both sides become better off. Nobody would enter an exchange if they expected to lose from it. Imports are therefore just as valuable to us as exports are to others. We do not need to impoverish others to enrich ourselves. Indeed, we have more to gain if our customers are wealthy.
- Regulations on commerce are ill founded and counterproductive. Prosperity is threatened by taxes, import tariffs, export subsidies and preferences for domestic industries.
- A nation's productive capacity rests on the division of labour and the accumulation of capital it makes possible. Huge increases in output can be gained by breaking down production into many small tasks, each undertaken by specialist hands. This leaves producers with a surplus for investment.
- A country's future income depends on the rate of capital accumulation. The more that is invested in better productive processes, the more wealth will be created in the future.

- When there is free trade and competition the market system automatically remains focused on the most urgent needs. Where things are scarce, people are prepared to pay more for them. There is more profit in supplying them, so producers invest capital in order to produce more.
- Prosperity grows most rapidly when there is an open, competitive marketplace, with free exchange and without coercion. Defence, justice and the rule of law are needed to maintain this openness. Freedom and self-interest do not lead to chaos, but – as if guided by an ‘invisible hand’ – produce order and concord.
- Vested interests use government power to distort the market system for their own benefit. Employers and professionals may promote regulations that stifle competition, such as entry barriers that prevent people from practising particular trades.
- Taxes should be proportionate to income and ought to be certain and convenient to pay. They should be cheap to collect, should not hamper business, should not be so onerous as to encourage evasion and should not require frequent visits from tax gatherers.
- Human beings have a natural ‘sympathy’ (or empathy) for others. This enables them to moderate their behaviour and preserve harmony. It is also the basis of moral judgements about behaviour and the source of human virtue. Human nature is a better guide to the creation of a harmonious society than the overweening reason of zealots and visionaries.