

I. About the importance of Adam Smith's book *The Wealth of Nations* we read on the website of the Adam Smith Institute

This remarkable book was published in 1776, at a time when the power of free trade and competition as stimulants to innovation and progress was scarcely understood. Governments granted monopolies and gave subsidies to protect their own merchants, farmers and manufacturers against 'unfair' competition. The guilds operated stern local cartels: artisans of one town were prevented from travelling to another to find work. Local and national laws forbade the use of new, labour-saving machinery. [...]

Adam Smith railed against this restrictive, regulated, 'mercantilist' system, and showed convincingly how the principles of free trade, competition, and choice would spur economic development, reduce poverty, and precipitate the social and moral improvement of humankind. To illustrate his concepts, he scoured the world for examples that remain just as vivid today: from the diamond mines of Golconda to the price of Chinese silver in Peru; from the fisheries of Holland to the plight of Irish prostitutes in London. And so persuasive were his arguments that they not only provided the world with a new understanding of the wealth-creating process; they laid the intellectual foundation for the great era of free trade and economic expansion that dominated the Nineteenth Century.

stimulant (n.)	<i>Anreiz</i>	rail (v.)	speak out against
scarcely (adv.)	not much	spur (v.)	push
subsidy (n.)	<i>Subvention</i>	precipitate (v.)	hasten
guild (n.)	<i>Zunft</i>	concept (n.)	idea
stern (adj.)	strict	scour (v.)	search carefully
artisan (n.)	craftsman	plight (n.)	hardship

II.

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. He will be more likely to prevail if he can interest their self-love in his favour, and show 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 regard to their own interest. We address ourselves, not to their humanity but to their self-love. [...]

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society. [...] As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic 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. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic 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. 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 public good.

<http://www.econlib.org/library/Smith/smWN.html> B. I2,2; B IV, 2.4 + 2.9

Tasks:

- 1) Explain what has been so revolutionary about Smith's book *The Wealth of Nations*. (→ I)
- 2) Provide a summary of Smith's theory (→ II).
- 3) Please criticise Smith's theory a) from the point of view of Smith's contemporaries and b) from a modern viewpoint.