

Lesson 1

Student Handout 1.1—Excerpts from: An Inquiry into the Nature and Causes of the Wealth of Nations, by Adam Smith: On the Division of Labor

Adam Smith (1723-1790), a Scottish philosopher and economist, is widely credited with originating the key principles of capitalism. Published in 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations* is Smith's treatise outlining those principles. In it, he argues that the combination of individual property, self-interest, and competition would regulate the economy with minimal government intervention—"as if by an invisible hand." In the excerpt below, consider: What is Smith's argument? What capitalist economic principle is he describing?

Book I, Chapter 1. *Of the Division of Labor:* THE greatest improvement in the productive powers of labor, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labor. ...

The division of labor, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labor. ... This great increase of the quantity of work which, in consequence of the division of labor, the same number of people are capable of performing, 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 labor, and enable one man to do the work of many. ...

It is the great multiplication of the productions of all the different arts, in consequence of the division of labor, which occasions, in a well-governed society, that *universal opulence* which extends itself to the lowest ranks of the people. 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 quantity 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. ...

Book I, Chapter 2. *Of the Principle which gives occasion to the Division of Labor:* THIS division of labor, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that universal opulence to which it gives occasion. 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. ... 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 favor, 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 art 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* ...

Book I, Chapter 4. *Of the Origin and Use of Money:* WHEN the division of labor has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labor can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labor, which is over and above his own consumption, for such parts of the produce of other men's labor as he has occasion for. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a *commercial society*. ...

Source: *Modern History Sourcebook*, Internet History Sourcebook Project, ed. Paul Halsall, <http://www.fordham.edu/halsall/mod/adamsmith-summary.html>