

## Lesson 1

### *Student Handout 1.2—Excerpts from: An Inquiry into the Nature and Causes of the Wealth of Nations, by Adam Smith: On Commodities*

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 5.** *Of the Real and Nominal Price of Commodities, or their Price in Labor, and their Price in Money:* EVERY man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life. But after the division of labor has once thoroughly taken place, it is but a very small part of these with which a man's own labor can supply him. The far greater part of them he must derive from the labor of other people, and he must be rich or poor according to the quantity of that labor 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 labor which it enables him to purchase or command. Labor, therefore, is the real measure of the exchangeable value of all commodities. ...

The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything 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 labor as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil. ...

**Book I, Chapter 6.** *Of the Component Parts of the Price of Commodities:* ... It is natural that what is usually the produce of two days' or two hours' labor, should be worth double of what is usually the produce of one day's or one hour's labor. If the one species of labor should be more severe than the other, some allowance will naturally be made for this superior hardship; and the produce of one hour's labor in the one way may frequently exchange for that of two hours' labor in the other. ...

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 labor adds to the value of the materials. In exchanging the complete manufacture either for money, for labor, 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. The value which the workmen add to the materials,

therefore, resolves itself in this ease 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 ...

In this state of things, the whole produce of labor does not always belong to the laborer. He must in most cases share it with the owner of the stock which employs him. Neither is the quantity of labor commonly employed in acquiring or producing any commodity, the only circumstance which can regulate the quantity which it ought commonly to purchase, command, or exchange for. An additional quantity, it is evident, must be due for the profits of the stock which advanced the wages and furnished the materials of that labor. ... The real value of all the different component parts of price, it must be observed, is measured by the quantity of labor which they can, each of them, purchase or command. Labor measures the value not only of that part of price which resolves itself into labor, but of that which resolves itself into rent, and of that which resolves itself into profit. In every society the price of every commodity finally resolves itself into someone or other, or all of those three parts; and in every improved society, all the three enter more or less, as component parts, into the price of the far greater part of commodities. ...

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