

them into the use of much of our Lead, Cloth, Tin, and other things, which is a good addition to the former vent of our commodities.

Again, some men have alleged that those Countries which permit money to be carried out, do it because they have few or no wares to trade withall: but we have great store of commodities, and therefore their action ought not to be our example.

To this the answer is briefly, that if we have such a quantity of wares as doth fully provide us of all things needful from beyond the seas: why should we then doubt that our monies sent out in trade, must not necessarily come back again in treasure; together with the great gains which it may procure in such manner as is before set down? And on the other side, if those Nations which send out their monies do it because they have but few wares of their own, how come they then to have so much Treasure as we ever see in

those places which suffer it freely to be exported at all times and by whomsoever? I answer, *Even by trading with their Moneys*; for by what other means can they get it, having no Mines of Gold or Silver?

Thus may we plainly see, that when this weighty business is duly considered in his end, as all our humane actions ought well to be weighed, it is found much contrary to that which most men esteem thereof, because they search no further than the beginning of the work, which misinforms their judgments, and leads them into error: For if we only behold the actions of the husbandman in the seed-time when he casteth away much good corn into the ground, we will rather accompt him a mad man than a husbandman: but when we consider his labours in the harvest which is the end of his endeavours, we find the worth and plentiful increase of his actions.

1. Even beyond the period when Mun wrote, trade was often considered to be a disreputable occupation. What is Mun's view of the importance of the merchant?
2. Mun gives a long list of the qualities of a good merchant. How are they different from what is required to succeed in business today?
3. How does a nation enrich itself?
4. The common economic argument of Mun's time was that exporting gold and silver coin to pay for imports was wrong. Mun disagrees. Why?
5. How does Mun's position as a merchant affect the presentation of his case?

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Adam Smith

The Wealth of Nations

(1776)

Adam Smith (1723–1790) was the most important representative of the eighteenth-century Scottish enlightenment. Though his father was a customs official, the younger Smith trained for a university career from an early

age. Having entered Glasgow University in 1737 at a period when it was one of the leading European centers of learning, he studied moral philosophy and was judged so proficient in his subject that 15 years later he was appointed to the chair of moral philosophy there. His interests turned to law and economics, and he began to formulate the principles that were to underlie his greatest work, *The Wealth of Nations*. Smith subsequently resigned his academic post to travel and lead a quiet life. He died in Edinburgh in 1790.

The Wealth of Nations is one of the classics of Western economic theory. In it, Smith postulates self-interest as the principal motivation of economic activity and demonstrates how a free marketplace enhances economic exchange among self-interested traders. Smith's views remain central to modern capitalist organization and doctrine.

OF THE NATURAL AND MARKET PRICE OF COMMODITIES

There is in every society or neighbourhood an ordinary or average rate both of wages and profit in every different employment of labour and stock. This rate is naturally regulated, as I shall show hereafter, partly by the general circum-



Engraving of Adam Smith by James Tassie, 1787.

stances of the society, their riches or poverty, their advancing, stationary, or declining condition; and partly by the particular nature of each employment.

There is likewise in every society or neighbourhood an ordinary or average rate of *rent*, which is regulated too, as I shall show hereafter, partly by the general circumstances of the society or neighbourhood in which the land is situated, and partly by the natural or improved fertility of the land.

These ordinary or average rates may be called the natural rates of wages, profit, and rent, at the time and place in which they commonly prevail.

When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing to market, according to their natural rates, the commodity is then sold for what may be called its natural price.

The commodity is then sold precisely for what it is worth, or for what it really costs the person who brings it to market; for though in common language what is called the prime cost of any commodity does not comprehend the profit of the person who is to sell it again, yet if he sells it at a price which does not allow him the ordinary rate of profit in his neighbourhood, he is evidently a loser by the trade; since by employing his stock in some other way he might have made that profit. His profit, besides, is his revenue, the

proper fund of his subsistence. As, while he is preparing and bringing the goods to market, he advances to his workmen their wages, or their subsistence; so he advances to himself, in the same manner, his own subsistence, which is generally suitable to the profit which he may reasonably expect from the sale of his goods. Unless they yield him this profit, therefore, they do not repay him what they may very properly be said to have really cost him.

Though the price, therefore, which leaves him this profit is not always the lowest at which a dealer may sometimes sell his goods, it is the lowest at which he is likely to sell them for any considerable time; at least where there is perfect liberty, or where he may change his trade as often as he pleases.

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.

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; 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.

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 either the greatness of the deficiency, or the wealth and wanton luxury of the competitors, happen to animate more or less the eagerness of the competition. Among competitors of equal wealth and luxury the 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 them. 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 in that of old iron.

When the quantity brought to market is just sufficient to supply the effectual demand and no more, the market price naturally comes to be either exactly, or as nearly as can be judged of, the same with the natural price. The whole quantity upon land can be disposed of for this price, and cannot be disposed of for more. The competition of the different dealers obliges them all to accept of this price, but does not oblige them to accept of less.

The quantity of every commodity brought to market naturally suits itself to the effectual demand. It is the interest of all those who employ their land, labour, or stock in bringing any commodity to market, that the quantity never should exceed the effectual demand; and it is the interest of all other people that it never should fall short of that demand.

If at any time it exceeds the effectual demand, some of the component parts of its price must be paid below their natural rate. If it is rent, the interest of the landlords will immediately prompt them to withdraw a part of their land; and if it is wages or profit, the interest of the labourers in the one case, and of their employers in the other, will prompt them to withdraw a part of their labour or stock from this employment. The quantity brought to market will soon be no more than sufficient to supply the effectual demand. All the different parts of its price will rise to their natural rate, and the whole price to its natural price.

If, on the contrary, the quantity brought to market should at any time fall short of the effectual demand, some of the component parts of its price must rise above their natural rate. If it is rent, the interest of all other landlords will naturally prompt them to prepare more land for the raising of this commodity; if it is wages or profit, the interest of all other labourers and dealers will soon prompt them to employ more labour and stock in preparing and bringing it to market. The quantity brought thither will soon be sufficient to supply the effectual demand. All the different parts of its price will soon sink to their natural rate, and the whole price to its natural price.

But in some employments the same quantity of industry will in different years produce very different quantities of commodities; while in others it will produce always the same, or very nearly the same. The same number of labourers in husbandry will, in different years, produce very different quantities of corn, wine, oil, hops, &c. But the same number of spinners and weavers will every year produce the same or very nearly the same quantity of linen and woollen cloth. It is only the average produce of the one species of industry which can be suited in any respect to the effectual demand; and as its actual produce is frequently much greater and frequently much less than its average produce, the quantity of the commodities brought to market will sometimes exceed a good deal, and sometimes fall short a good deal, of the effectual

demand. Even though that demand therefore should continue always the same, their market price will be liable to great fluctuations, will sometimes fall a good deal below, and sometimes rise a good deal above their natural price. In the other species of industry, the produce of equal quantities of labour being always the same or very nearly the same, it can be more exactly suited to the effectual demand. While that demand continues the same, therefore, the market price of the commodities is likely to do so too, and to be either altogether, or as nearly as can be judged of, the same with the natural price. That the price of linen and woollen cloth is liable neither to such frequent nor to such great variations as the price of corn, every man's experience will inform him. The price of the one species of commodities varies only with the variations in the demand: that of the other varies, not only with the variations in the demand, but with the much greater and more frequent variations in the quantity of what is brought to market in order to supply that demand.

But though the market price of every particular commodity is in this manner continually gravitating, if one may say so, towards the natural price, yet sometimes particular accidents, sometimes natural causes, and sometimes particular regulations of policy, may, in many commodities, keep up the market price for a long time together a good deal above the natural price.

When by an increase in the effectual demand the market price of some particular commodity happens to rise a good deal above the natural price, those who employ their stocks in supplying that market are generally careful to conceal this change. If it was commonly known, their great profit would tempt so many new rivals to employ their stocks in the same way, that, the effectual demand being fully supplied, the market price would soon be reduced to the natural price, and perhaps for some time even below it. If the market is at a great distance from the residence of those who supply it, they may sometimes be able to keep the secret for several years

together, and may so long enjoy their extraordinary profits without any new rivals. Secrets of this kind, however, it must be acknowledged, can seldom be long kept; and the extraordinary profit can last very little longer than they are kept.

A monopoly granted either to an individual or to a trading company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market constantly understocked, by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate.

The price of monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion, indeed, but for any considerable time together. The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give: the other is the lowest which the sellers can commonly afford to take and at the same time continue their business.

The exclusive privileges of corporations, statutes of apprenticeship, and all those laws

which restrain in particular employments the competition to a smaller number than might otherwise go into them, have the same tendency, though in a less degree. They are a sort of enlarged monopolies, and may frequently, for ages together, and in whole classes of employments, keep up the market price of particular commodities above the natural price, and maintain both the wages of the labour and the profits of the stock employed about them somewhat above their natural rate.

Such enhancements of the market price may last as long as the regulations of policy which give occasion to them.

The market price of any particular commodity, though it may continue long above, can seldom continue long below its natural price. Whatever part of it was paid below the natural rate, the persons whose interest it affected would immediately feel the loss, and would immediately withdraw either so much land, or so much labour, or so much stock, from being employed about it, that the quantity brought to market would soon be no more than sufficient to supply the effectual demand. Its market price, therefore, would soon rise to the natural price. This at least would be the case where there was perfect liberty.

1. What is the difference between what Smith defines as the natural price of an item and its market price?
 2. How do supply and demand regulate the market?
 3. How might merchants manipulate the price of commodities?
 4. What is Smith's view of the regulation of markets? What, according to him, is the impact of such regulation?
 5. Smith's work has often been pointed to as a masterful statement of the positive nature of free enterprise. What do you think that free enterprise means for Smith?
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