

COMMANDING HEIGHTS

Adam Smith

1

(1723-1790)

*The 18th-century Scottish philosopher Adam Smith is credited with writing the first great work on political economy. His treatise *The Wealth of Nations* describes the evolution and political organization of civilizations, from hunter-gatherer societies to commercially interdependent ones.*

From "Smith Adam." Microsoft Encarta Encyclopedia 2001.

Adam Smith was a British philosopher and economist. His celebrated treatise "An Inquiry into the Nature and Causes of the Wealth of Nations" was the first serious attempt to study the nature of capital and the historical development of industry and commerce among European nations.

Smith was born in Kirkcaldy, Scotland, and educated at the universities of Glasgow and Oxford. From 1748 to 1751, he gave lectures on rhetoric and belles-lettres in Edinburgh. During this period, a close association developed between Smith and the Scottish philosopher David Hume that lasted until the latter's death in 1776 and contributed much to the development of Smith's ethical and economic theories.

Smith was appointed professor of logic in 1751 and then professor of moral philosophy in 1752 at the University of Glasgow. He later systematized the ethical teachings he had propounded in his lectures and published them in his first major work, *Theory of Moral Sentiments* (1759). In 1763 he resigned from the university to accept the position of tutor to Henry Scott, 3rd duke of Buccleuch, whom he accompanied on an 18-month tour of France and Switzerland. Smith met and associated with many of the leading continental philosophers of the physiocratic school, which based its political and economic doctrines on the supremacy of natural law, wealth, and order. He was particularly influenced by the French philosophers Francois Quesnay and Anne Robert Jacques Turgot, whose theories Smith later adapted in part to form a basis for his own. From 1766 to 1776, he lived in Kirkcaldy, preparing *The Wealth of Nations* (1776). Smith was appointed commissioner of customs in Edinburgh in 1778, serving in this capacity until his death. In 1787 he was also named lord rector of the University of Glasgow.

Smith's *Wealth of Nations* represents the first serious attempt in the history of economic thought to divorce the study of political economy from the related fields of political science, ethics, and jurisprudence. It embodies a penetrating analysis of the processes whereby economic wealth is produced and distributed and demonstrates that the fundamental sources of all income, that is, the basic forms in which wealth is distributed, are rent, wages, and profits.

The central thesis of *The Wealth of Nations* is that capital is best employed for the production and distribution of wealth under conditions of governmental noninterference, or laissez-faire, and free trade. In Smith's view, the production and exchange of goods can be stimulated, and a consequent rise in the general standard of living attained, only through the efficient operations of private industrial and commercial entrepreneurs acting with a minimum of regulation and control by governments. To explain this concept of government maintaining a laissez-faire attitude toward commercial endeavors, Smith proclaimed the principle of the "invisible hand": Every individual in pursuing his or her own good is led, as if by an invisible hand, to achieve the best good for all. Therefore any interference with free competition by government is almost certain to be injurious.

Although this view has undergone considerable modification by economists in the light of historical developments since Smith's time, many sections of *The Wealth of Nations*, notably those relating to the sources of income and the nature of capital, have continued to form the basis for theoretical study in the field of political economy. *The Wealth of Nations* has also served, perhaps more than any other single work in its field, as a guide to the formulation of governmental economic policies.