An Inquiry into the Nature and Causes of the Wealth of Nations

Adam Smith

1776

[Brackets] enclose editorial explanations. Small ·dots· enclose material that has been added, but can be read as though it were part of the original text. Occasional •bullets, and also indenting of passages that are not quotations, are meant as aids to grasping the structure of a sentence or a thought. Every four-point ellipsis . . . . indicates the omission of a brief passage that seems to present more difficulty than it is worth. Longer omissions are reported between brackets in normal-sized type. Cross-headings in SMALL CAPITALS that are not in the original are marked by small ·dots·. Each of them announces the start of a new topic; there is often no mark of where that topic ends.

First launched: July 2016

Contents

Glossary

accommodation: Smith often uses this word in a broader sense than we are familiar with, a sense in which someone's 'accommodation' refers to all the comforts and conveniences he enjoys, not merely the place where he lives.

alienation: Selling something to someone outside the family of its present owner.

allodial: 'Pertaining to the absolute ownership of an estate' (OED)

arbitrary: It means 'dependent on individual human decisions'. An 'arbitrary government' is contrasted with one in which the rule of law is absolute.

art: Any practical activity that is governed by rules, involves techniques, requires skill. Also **artificer**.

benefice: Property and/or guaranteed income of a rector or vicar (higher in rank than a curate).

bounty: A handout from the state to the exporter of certain sorts of goods.

cattle: Sometimes used to cover horses, hogs, and sheep as well as bovine livestock. Not deer.

chairmen: Carriers of sedans, hired especially in winter to enable the passenger to avoid walking in water and mud.

contempt: On a few occasions Smith uses 'contempt of x' to mean 'attitude of regarding x as negligible'.

creditable: Respectable, decent.

effectual demand(er): A technical term of Smith's, explained on page 22.

entail: A property is entailed if it must by law remain in the possession of the family that now owns it.

equipage: This imprecise term covers: coach and horses, servants' uniform, elegant cutlery and dishes, and so on.

factory: Replaces Smith's 'manufactory' throughout.

finally paid: A tax is 'finally paid' by the person who pays it with no **retribution**.

generous: Mainly used in today's sense of 'free in giving', but a few times in the older sense of 'noble-minded, magnanimous, rich in positive emotions' etc.

genius: Aptitude for a particular activity.

income, revenue: In this version, private individuals have incomes; Smith usually says that they have revenues.

industry: Work, e.g. the work of a farm labourer.

journeyman: In Smith's usage, a skilled worker who is available to be hired but is not anyone's permanent fixed-wage employee, and is paid according to output rather than time.

magistrate: In this work a 'magistrate' is anyone with an official role in the enforcement of law; on page 180 the emperor Augustus is referred to as 'the magistrate'.

manufacturer: Smith quite often uses this in something like our sense, though he often expresses that with the phrase 'master manufacturer'. Sometimes the undecorated noun is used to refer to anyone who *works in* manufacturing; there is a striking example of this on page 107.

meanest: Lowest on the social scale.

money: When Smith mentions particular sums of money in the terminology of 'pounds', 'shillings' and 'pence', those words are usually replaced by the conventional symbols, so that for example '£13/6/8d' means 'thirteen pounds six

shillings and eightpence'; '6/-' means 'six shillings'; '8d' means 'eightpence'.

parish: A town or village or neighbourhood that has its own church. To 'come on the parish' = 'to live in a workhouse, at public expense', always in wretched conditions.

pecuniary: Having to do with money; a worker's 'pecuniary wages' are what he is paid in cash for his work.

perfect liberty: Smith regularly uses this phrase, as he explains on page 22, to mean 'being free, so far as the law is concerned, to practise any trade you choose'.

perpetuities: Legal arrangements under which estates can never be sold or given away.

prince: In this work *prince* isn't a title and doesn't designate a rank; it stands for any ruler of a state, whether a king or queen or duke or count etc.

principle: Smith often uses this word in a sense, once common but now obsolete, in which 'principle' means 'source', 'cause', 'driver', 'energiser', or the like.

prodigal: Unwisely free in spending; 'the prodigal son' does *not* mean 'the son who left home and then returned' but 'the son who foolishly squandered all his money'.

projector: Someone who tries to start a new enterprise. On pages 117 and 123 there are strong suggestions of 'someone who rashly or foolishly tries' etc.

rent certain: A rent stated as a fixed amount of money per month, year, etc., rather than as a fixed proportion of some variable quantity such as profitability of land.

retribution: Sometimes used in the now obsolete sense of 'recompense' or 'repayment'. The word is left untouched in this version in case Smith means by it something more special than that. See also **finally paid**.

revolution: The revolution Smith refers to on page **??** and a few other places is the sequence of events in 1688 in which James II (Roman catholic) was replaced by the Dutch William and Mary of Orange (protestant) as joint sovereigns of England.

rude: As applied to societies: primitive. As applied to products such as metals and grains: unprocessed.

save-all: 'a means of preventing loss or waste' (OED).

science: In early modern times this word applied to any body of knowledge or theory that is (perhaps) axiomatised and (certainly) conceptually highly organised. Smith's use of the word seems looser than that, but you may have to interpret individual occurrences on the basis of their context.

station: social status.

sumptuary law: Law setting limits on how much individuals may spend.

theory: This is nearly always a replacement for Smith's 'system'. The work contains the phrase 'theories of political economy' (once) and 'systems of political economy' (many times), and it's clear that for Smith the phrases are synonymous.

tolerable: reasonable, allowable, fairly acceptable.

undertaker: In Smith's usage, the 'undertaker' of a project is the entrepreneur who launches and risks his capital in it.

united kingdom: In Smith's day this phrase applied to the combination of England (including Wales) and Scotland. Only in 1801 did 'the United Kingdom' become an official name for those two plus Ireland.

workshop: This word is used throughout to replace 'workhouse', to avoid the distracting suggestion of 'poorhouse'.

Introduction and plan of the work

The annual labour of every nation is the fund that basically supplies it with all the necessities and conveniences of life it annually consumes, and which consists in the immediate product of that labour or in what is purchased with it from other nations. Thus, •how well the nation is supplied with all the necessities and conveniences for which it has occasion depends on •the size of this product (or of what is purchased with it) in proportion to the number of those who are to consume it.

This proportion is always regulated by

(1) the skill, dexterity, and judgment with which its labour is generally applied; and

(2) how many people are employed in useful labour in proportion to those who are not so employed.

Whatever be the soil, climate, or extent of territory of any particular nation, whether its annual supply is abundant or scanty must depend on those two circumstances.

The abundance or scantiness of this supply seems to depend more on **(1)** than on **(2)**. Among the savage nations of hunters and fishers, everyone who can work is somewhat employed in useful labour, and does his best to provide the necessities and conveniences of life for himself and for such of his tribe as are too old, too young, or too infirm to hunt and fish. Such nations, however, are so miserably poor that they often are—or *think* they are—reduced to having to get rid of their infants, their old people, and their chronically ill, sometimes directly destroying them, and sometimes abandoning them to die of hunger or be devoured by wild beasts. Among civilised and thriving nations, on the other hand, many people don't labour at all; and many of *them* consume the product of up to a hundred times more labour than most of those who work; yet the product of the whole labour of the society is so large that all are often abundantly supplied, and even the poorest workman, if he is frugal and industrious, can enjoy more of the necessities and conveniences of life than any savage can acquire.

The causes of this improvement in the productive powers of labour, and the ways in which its product is naturally distributed among the different ranks and conditions of men, are the subject of the Book I of this Inquiry.

Whatever the level of skill, dexterity, and judgment with which labour is applied in any nation, the abundance of its annual supply must depend on the number of those who are annually employed in useful labour in proportion to the number who are not so employed. I'll show in due course that the number of useful and productive labourers is always proportional to •the quantity of *capital stock* that is employed in setting them to work, and to the •particular way in which it is so employed. Book II deals with the nature of capital stock, how it is gradually accumulated, and how the different ways of using it affect how much labour it puts into motion.

Nations tolerably well advanced in the skill, dexterity, and judgment of their labour force have followed very different plans in the general conduct or direction of it; and those plans haven't all been equally favourable to the size of its product. Some nations have given special encouragement to the industry [see Glossary] of the country; others to the industry of towns. Hardly any have dealt equally and impartially with every sort of industry. Since the fall of the Roman empire Europe has been more favourable to arts, manufactures, and commerce (the industry of towns) than to agriculture (the industry of the country). The policies producing these results are explained in Book III.

Those different plans may have arisen from the private interests and prejudices of particular orders of men, without any thought of their effect on the society's general welfare;

but they have given rise to very different theories of political economy of which some magnify the importance of the industry of towns, others of the industry of the country. Those theories have influenced not only the opinions of men of learning but the public conduct of princes and sovereign states. I have tried in Book IV to explain fully and clearly those theories and their main effects in different ages and nations.

So Books I–IV have aimed to explain what the revenue of the great body of the people has consisted in, i.e. what has been the nature of the funds that have supplied the different nations with their annual consumption. Book V examines the revenue of the sovereign or the commonwealth. I try here to show

(1) what are the necessary expenses of the sovereign or commonwealth; and which of them ought to be paid for by the whole society and which by some particular part of it; and

(2) the different methods in which the whole society may be made to contribute towards defraying the expenses incumbent on the whole society, and the principal advantages and inconveniences of each; and

(3) the reasons and causes that have induced almost all modern governments to mortgage some part of this revenue, i.e. to contract debts; and the effects of those debts on the real wealth—the annual product of the land and labour—of the society.

Book I.
The causes of improvement in the productive powers of labour, and the order according to which its product is naturally distributed among the different ranks of people

Chapter 1. The division of labour

The greatest improvements in the productive powers of labour, and most of the skill, dexterity, and judgment with which it is directed or applied, seem to be results of the division of labour. It will be easier to understand how the division of labour affects society in general if we first look at how it operates in some particular manufactures. It is easy to *see* the division of labour in small manufactures where the over-all number of workmen is small and all of them can be collected into one workshop and all seen at once.

But in the large manufactures that are destined to meet the needs of the great body of the people, every branch of the work employs so many workmen that they can't be collected into a single workshop; so that we can't see more at one time than those employed in one branch. In such manufactures the work may be divided into many more parts than in the smaller ones, but the division is much less obvious and has accordingly been much less noticed.

Consider the trade of a pin-maker—a small manufacture, but one in which the division of labour has often been noticed. A workman not educated to this business or acquainted with the use of its machinery probably couldn't make one pin in a day, and certainly couldn't make twenty. [Smith builds into that sentence two asides: that the division of labour •has made pin-making a distinct trade and •probably has led to the invention of the machinery.] But these days not only is pin-making a particular trade but it is divided into branches most of which are themselves particular trades. [He gives details.] In this way the business of making a pin is divided into about eighteen operations; in some factories they are all performed by different people, though in others one man may perform two or three of them. I have seen a small workshop of this kind employing only ten men, so that some had to perform two or three operations. These were very poor people, and therefore not familiar with the machinery they had to use; but when they exerted themselves they could jointly make about 12lb of pins in a day, which is about 48,000 pins of a middling size. So each of those ten workers might be considered as making 4,800 pins in a day; but if they had all worked separately and with no training in this particular business, they certainly couldn't each have made twenty pins in a day, and perhaps not even one. . . .

In every other art [see Glossary] and manufacture the effects of the division of labour are similar to this, though in many the labour can't be so much subdivided or reduced to such simplicity of operation. But whatever division of labour *can* be introduced always creates a proportionate increase of the productive powers of labour. This advantage seems to be what led to the separation of different trades and employments. And this separation is generally greatest in countries that have the most industry and improvement—what is the work of one man in a rude [see Glossary] state of society is generally that of several in an improved one. In every improved society the farmer is generally just a farmer, the manufacturer just a manufacturer; and the labour involved in any one manufacture is almost always divided among many hands. How many trades are employed

in each branch of the linen and woollen manufactures, from the growers of the flax and the wool to the bleachers and smoothers of the linen, or the dyers and dressers of the cloth! The business of the grazier can't be separated from that of the corn-farmer as completely as the trade of the carpenter is commonly separated from that of the smith. The spinner is usually a different person from the weaver; but the ploughman, the harrower, the sower of the seed, and the reaper of the corn are often the same. Those different sorts of labour are needed at different seasons, so one man can't be constantly employed in any one of them. Perhaps that is why the improvement of the productive powers of labour in agriculture don't always keep pace with their improvement in manufactures. The most opulent nations generally excel their neighbours in agriculture as well as in manufactures, but usually not by as much in the former as in the latter. Their lands are better cultivated—and having more labour and expenditure bestowed on them—produce more in proportion to the extent and natural fertility of the ground, but usually not much more than proportional to the greater amount of labour and greater expense. In agriculture, the rich country's labour is not always much more productive than the poor country's, and never as much more productive as it commonly is in manufactures. [He gives an example. The cultivation of corn is better in England than in France, where it is better than in Poland; but the price of corn (of equal quality) from those three countries is roughly the same.] But though the poor country. . . .can to some extent rival the rich country in the cheapness and quality of its corn, it can't compete in this way in its manufactures—at least if those manufactures suit the soil, climate, and situation of the rich country. The silks of France are better and cheaper than England's because the manufacture of silk, at least under the present high duties on the import of raw silk, doesn't suit England's climate as well as France's. [In this passage, 'climate' refers not to the weather but to the over-all situation. For manufacturing silk, the bad factor in England's 'climate' is the import tax on raw silk. The weather is irrelevant.] But England's hardware and coarse woollens are incomparably better than France's, and where quality is the same they are much cheaper. In Poland there are said to be hardly any manufactures except for a few of the coarser household manufactures without which no country can well subsist.

This increase in how much work a given number of people can do when their labour is divided is due to three factors. . . .

(1) By reducing every man's business to one simple operation, and making that the sole employment of his life, the division of labour greatly increases **the workman's dexterity**; and that of course increases the amount of work he can do. A common smith who hasn't been used to making nails will, if he is obliged to attempt this, make at most 300 nails—very bad ones—in a day. A smith who has been used to making nails but not as his sole or principal business, probably can't make more than 1,000 nails in a day, however hard he tries. But a boy who has never exercised any trade except making nails can make more than 2,300 nails in a day; I have seen this myself. [He goes on about the complexity of nail-making and thus its demands on dexterity, concluding:] The rapidity with which some of the operations of such manufactures are performed exceeds what the human hand could be supposed, by those who had never seen them, to be capable of acquiring.

(2) The advantage gained from **saving the time commonly lost in passing from one sort of work to another** is much greater than we might at first think. . . . A country weaver who also cultivates a small farm must lose a good deal of time in passing back and forth between his loom and the field. When the two trades are carried on in the same

workshop, the loss of time is less but still considerable. A man commonly slacks a little when he first begins the new work; his mind doesn't 'go to it' (as they say), and for some time he rather trifles than applying himself to good purpose. [Smith says that every country workman who has to change his work and his tools every half-hour 'naturally, or rather necessarily' falls into this habit of slacking, which] makes him almost always slothful and lazy, incapable of vigorous work even on the most pressing occasions. Quite apart from his lack of dexterity, this cause alone must considerably reduce the quantity of work he can perform.

(3) Everyone must know how greatly labour is eased and shortened by **the application of proper machinery**. There's no need to give an example. All those machines by which labour is made so much easier and briefer seem to have been invented because of division of labour. . . . Many of them were the invention of common workmen who, being each employed in some very simple operation, naturally looked for easier and readier methods of performing it. . . . In the first steam engines a boy was constantly employed to open or shut the valve between the boiler and the cylinder according as the piston ascended or descended. One such boy noticed that if he tied a string between •the handle of the valve and •another part of the machine, the valve would open and shut without his help, and leaving him at liberty to amuse himself with his playmates. This was one of the greatest improvements in this machine since it was first invented—discovered by a boy who wanted to save himself trouble!

Many improvements in machines, however, have been made not by the •users of the machines but by their •makers, when making them became a separate specialised trade. And some have been made by those who are called •philosophers, or men of speculation [here = 'disciplined theorising'], whose trade is not to *do anything* but to *observe everything*, which often enables them to combine the powers of the most distant and dissimilar objects in the progress of society. Like every other employment, philosophy or speculation becomes the principal or sole occupation of a particular class of citizens. Like the others it is divided into many branches, each employing a special class of philosophers; and here too the division of employment improves dexterity and saves time. Each individual becomes more expert in his own special branch, more work is done on the whole, and the amount of science [see Glossary] is considerably increased by it.

The affluence that extends right through to the lowest ranks of the people in a well-governed society arises from the multiplication of the products of the various arts because of the division of labour. Every workman has a large quantity of his own work to dispose of apart from what he needs for himself; and all other workmen are exactly the same situation; so he can exchange a quantity of his own goods for a quantity—or (the same thing) the *price of* a quantity—of theirs. He supplies them abundantly with what they need, and they accommodate him as fully with what he needs; and so a general plenty spreads through all ranks of the society.

The most common artificer or day-labourer in a civilised and thriving country—look at his accommodation! [see Glossary] There's no way of counting all the people whose labour has contributed, if only in a small way, to his having it. The day-labourer's woollen coat, for example, coarse and rough as it may appear, is the product of the joint labour of many workmen:

- •the shepherd,
- •the sorter of the wool,
- •the wool-comber or carder,
- •the dyer,
- •the scribbler,
- •the spinner,

- the weaver,
- the fuller,
- the dresser,

and many others combine their different arts in order to complete this homely product. How many carriers must have been employed in transporting the materials from some of those workmen to others in different places! How many ship-builders, sailors, sail-makers, rope-makers must have been employed in order to bring together the different dyes for the wool, which often come from the remotest corners of the world! What a variety of labour is also needed to produce the tools of the meanest [see Glossary] of those workmen! Setting aside such complicated machines as the sailor's ship, the fuller's mill, or even the weaver's loom, let us consider a very simple machine, the shears the shepherd uses to clip the wool, and see what labour is required to make *that*:

- the miner,
- the builder of the furnace for smelting the ore,
- the feller of the timber,
- the burner of the charcoal to use in the smelting-house,
- the brick-maker,
- the bricklayer,
- the workmen who manage the furnace,
- the millwright,
- the forger,
- the smith

—all these must combine their arts in order to produce the shears. If we examine in the same way all of his dress and household furniture—

- the coarse linen shirt that he wears next his skin,
- the shoes that cover his feet,
- the bed he lies on, and all its parts,
- the kitchen-grate at which he prepares his food,
- the coals he uses for cooking, dug from the bowels of the earth and brought to him perhaps by a long sea- and a long land-transport,
- all the other utensils of his kitchen,
- all the furniture of his table, the knives and forks, the earthen or pewter plates on which he serves his food,
- the different hands employed in preparing his bread and his beer,
- the glass window that lets in heat and light and keeps out wind and rain, with all the knowledge and art required for preparing that beautiful and happy invention without which these northern parts of the world could hardly have offered a comfortable habitation,
- together with the tools of all the workmen employed in producing those conveniences

—examining these, we realise that without the co-operation of thousands of people the very meanest person in a civilised country couldn't be provided for; not even in the easy and simple manner that we wrongly imagine him to live. Compared with the more extravagant luxury of the great, his accommodation does no doubt seem simple and easy; and yet the gap between •a European prince's accommodation and that of •an industrious and frugal peasant may be smaller than the gap between the latter and the accommodation of •many African kings who are the absolute masters of ten thousand naked savages.

Chapter 2. The principle that gives rise to the division of labour

[For 'principle' see the Glossary.]

This division of labour from which so many advantages are derived doesn't initially come from human wisdom that foresees and intends the general affluence to which it leads.

Rather, it comes—slowly but inevitably—from the natural human propensity to barter and exchange one thing for another.

Is this propensity a basic principle in human nature of which no further account can be given, or rather a necessary consequence of the faculties of reason and speech? The latter seems more probable, but I needn't go into that here. The propensity is common to all men, and apparently no other animals know this or any other kind of contract. . . . Nobody ever saw one animal use gestures and sounds to signify to another 'This is mine, that yours; I'm willing to give this ·in exchange· for that'. When an animal wants something from a man or another animal, its only means of persuasion is to gain the favour of those whose service it requires. A puppy fawns on its mother, and a spaniel wanting to be fed tries by a thousand attractions to engage the attention of its master who is at dinner. Man sometimes uses the same arts with his brethren. . . ., but he doesn't have time to do this every time he wants something; in civilised society he stands at all times in need of the help and co-operation of many, while his whole life is scarce sufficient to gain the friendship of a few. In most non-human species each adult animal is entirely independent, and in its natural state has no need for the help of any other living creature. But man nearly always needs the help of his brethren, and it's no use his relying on their benevolence for it! He'll do better to interest their self-love in his favour, and show them that *they* will benefit from doing what he requires. Whoever offers someone else a bargain of any kind is proposing

> 'Give me *that*, which I want, and you shall have *this*, which you want',

and this is how we obtain from one another most of the help that we need. We don't expect our dinner from the •benevolence of the butcher, brewer, or baker but from their •regard for their own interest; we appeal not to their humanity but to their self-love, and talk to them not of our needs but of their advantages. Only a beggar chooses to depend chiefly on people's benevolence, and even he doesn't depend on it entirely. The charity of well-disposed people. . . .ultimately provides him with all the necessities of life that he needs, but it doesn't—can't—provide him with them just when they are needed. Most of his occasional wants are supplied, like other people's, by treaty, barter, and purchase. With the money that one man gives him he buys food. The old clothes that another gives him he exchanges for •other clothes that suit him better, or for •lodging, or for •food, or for •money with which he can buy food or clothes or lodging as the need comes up.

This disposition to contract, barter, and purchase is also the source of the division of labour. In a tribe of hunters or shepherds, one man makes bows and arrows (for example) with more ease and dexterity than anyone else; he often exchanges them with his companions for cattle [see Glossary] or for venison; and eventually he finds that he can get more cattle and venison •in this way than •by going to the field to catch them. So his own interests are at work in his becoming a sort of armourer, with the making of bows and arrows as his chief business. [Smith gives other examples: a house-carpenter, a smith, and a tanner or dresser of hides or skins.] In this way, a man's confidence that he can exchange all the surplus part of the product of his own labour. . . .for such parts of the product of other men's labour as he may need encourages him to apply himself to a particular occupation, and to cultivate and perfect whatever talent or genius he may possess for that particular business.

. . . .The different genius [see Glossary] that appears to distinguish men of different professions. . . .is in many cases not so much the cause of the division of labour as an effect of it.

The difference between (say) a philosopher and a common street porter seems to arise not so much from •nature as from •habit, custom, and education. They may have been very much alike for their first six or eight years, with their parents and playmates not seeing any remarkable difference. At about that age or soon after, they come to be employed in very different occupations; and then the difference of talents comes to be noticed, and gradually widens until the philosopher's vanity is willing to acknowledge almost no resemblance. If there had been no disposition to barter and exchange, every man would have had to procure for himself everything he needed; all would have had the same duties to perform, and the same work to do; and there couldn't have been a difference of employment from which any large difference of talents could arise.

As well as •causing the difference of talents that is so remarkable among men of different professions, the disposition to barter and exchange also •makes that difference useful. Many tribes of animals that are all of the same species get from nature a much more remarkable difference of genius than men seem to have before custom and education leave their mark. By nature a •philosopher is not in genius and disposition half as different from a •street-porter as a •mastiff is from a •greyhound, or a greyhound from a spaniel, or this last from a shepherd's dog. Yet those tribes of animals, though all of one species, are of little use to one another: the mastiff's strength isn't supported by the greyhound's speed or by the spaniel's sagacity or the shepherd's dog's teachableness. Because there's no power or disposition to barter and exchange, the effects of those different geniuses and talents can't be brought into a common stock, and don't contribute at all to the better accommodation and convenience of the species. . . .

Chapter 3. The division of labour is limited by the extent of the market

Because **the power of exchanging** is what gives rise to the division of labour, the extent of this division must be limited by the extent of that power—i.e. by the extent of **the market**. When the market is very small, no-one can be motivated to dedicate himself entirely to one employment, because he won't able to exchange •all the surplus part of the product of his own labour for •the parts of the product of other men's labour that he needs.

Some kinds of work, even of the lowest kind, can be done only in a large town. A porter, for example, can't find employment and subsistence anywhere else; a village is far too small, and even an ordinary market-town is hardly big enough to keep him constantly employed. In the solitary houses and tiny villages scattered about in such a desert country as the highlands of Scotland, every farmer must be butcher, baker, and brewer for his own family. In such situations we can hardly expect to find even a smith, a carpenter, or a mason less than twenty miles from another in the same trade. The scattered families that live eight or ten miles away from the nearest of them must learn to do many little pieces of work for which in more populous countries they would call in the help of those workmen. Country workmen often have to tackle all the lines of work that involve the same sort of materials. A country carpenter deals in every sort of work that is made of wood; a country smith in every sort made of iron. The former is not only a carpenter but a joiner, a cabinet-maker, and even a carver in wood, as well as a wheelwright, a plough-wright, a waggon-maker. The smith's employments are even more various. There couldn't possibly be such a trade as that of a nail-maker in the remote and inland parts of the highlands of Scotland.

[Smith calculates that a nail-maker would need more than a *year* to sell or exchange the nails he made in a *day*. He then moves to the theme of how the division of labour and the consequent improvements in industry develops first 'on the sea-coast and along the banks of navigable rivers', and explains why:]

A broad-wheeled waggon attended by two men and drawn by eight horses takes about six weeks for a return journey between London and Edinburgh with a 4-ton load. In about the same time a ship navigated by six or eight men can sail between the ports of London and Leith (both ways) with a load of about 200 tons. [Leith was Edinburgh's port.] To do that by land one would need

> 50 broad-wheeled waggons, attended by 100 men and drawn by 400 horses.

Thus, for the cheapest land-transport of 200 tons from London to Edinburgh (one way) one would have to pay for three weeks' worth of

> the maintenance of 100 men, the maintenance and (nearly as great) the wear and tear of 400 horses and 50 large waggons, ·and the cost of insurance·.

Whereas to carry that load by water only would only have to pay for three weeks' worth of

> the maintenance of six or eight men, the wear and tear of a ship of big enough for that load, and the cost of insurance (which would he higher than for the land-journey).

If London were connected to Edinburgh only by land-transport, the only goods that could be transported between them would be things whose price was very considerable in proportion to their weight; that would be a tiny part of the commerce that now goes on between them, so it would give only a tiny part of the encouragement that they now provide to each other's industry. Even London and Calcutta have a very considerable commerce with each other, creating a market through which they give a good deal of encouragement to one another's industry. But if there were no water-transport, none of that would exist. What goods could bear the expense of land-transport between London and Calcutta? And even if there were things precious enough to support this expense, how safely could they be transported through the territories of so many barbarous nations?

Thus, the first improvements of art and industry are made in places where water-transport is available to open the whole world for a market to the product of every sort of labour; for a long time the only market that inland places can have for most of their goods is the immediately surrounding territory separating them from the coast and the large navigable rivers. . . .

According to the best authenticated history, the first nations to be civilised were the ones spread around the coast of the Mediterranean sea. That sea was extremely favourable to the infant navigation of the world, for two reasons. **(i)** Its many islands and the proximity of its neighbouring shores were helpful at a time when sailors, ignorant of the compass, were afraid to go out of sight of land. **(ii)** Having no tides, and consequently no waves except those caused by the wind, the Mediterranean had a smooth surface which was reassuring to sailors who, given the imperfection of the art of ship-building, were reluctant to abandon themselves to the boisterous waves of the ·Atlantic· ocean. To sail out through the straits of Gibraltar was regarded by the ancient world as an amazing and dangerous exploit of navigation. . . .

Of all the countries on the Mediterranean coast, Egypt seems to have been the first in which agriculture or manufactures were considerably cultivated and improved. Nowhere in Upper Egypt is more than a few miles from the Nile; and in Lower Egypt the Nile breaks itself into many canals,

which—with the help of a little art [see Glossary]—seem to have enabled water-transport between all the large towns, all the considerable villages, and even many farm-houses. . . . The extent and easiness of this inland navigation was probably a principal cause of the early improvement of Egypt.

[This theme is continued, with a page of remarks about the probable role of water-transport—including inland, by canals—in the commercial development of various countries in Asia and Africa. Remarks about why there hasn't been more commerce of that kind end with this:]

The commerce that any nation can carry on by means of a river that. . . .runs into another territory before it reaches the sea can never be very considerable, because the nations who possess that other territory can always obstruct the communication between the upper country and the sea. The navigation of the Danube is of very little use to Bavaria, Austria, and Hungary, compared with what it would be if any of them possessed the whole of its course until it reaches the Black sea.

Chapter 4. The origin and use of money

Once the division of labour is thoroughly established, very few of a man's wants are supplied by the product of his own labour; most are supplied by his exchanging his surplus with that of others. Every man thus lives by exchanging—i.e. by becoming to some extent a merchant—and the society grows to be a commercial society.

But when the division of labour first began, this power of exchanging must often have been greatly clogged and embarrassed in its operations. . . . For example:

> The butcher has more meat in his shop than he can consume, and the brewer and the baker would each be willing to buy a part of it. But all they have to offer in exchange are the products of their trades, and the butcher already has all the bread and beer he has an immediate need for. So no exchange can take place: he can't be their merchant, and they can't be his customers; and in this respect they aren't any use to one another.

To avoid this kind of situation, every prudent man in every period of society after the first dividing of labour must naturally have tried to manage his affairs in such a way as to have in his possession at all times, along with the specific product of his own work, a certain quantity of some other commodity that he thought few people would be likely to refuse in exchange for the product of their work. It's likely that many different commodities were successively used for this purpose. Cattle are said to have been the common instrument of commerce in the rude ages of society; inconvenient as this must have been, we're told that things were often valued in terms of numbers of cattle—Homer says that Diomedes's armour cost only nine oxen, while Glaucus's cost a hundred. Salt is said to be the common instrument of commerce and exchanges in Abyssinia; a species of shells in some parts of the coast of India; dried cod in Newfoundland; tobacco in Virginia; sugar in some of our West India colonies; hides or dressed leather in some other countries; and even today there is, I am told, a village in Scotland where a workman may carry nails instead of money to the baker's shop or the ale-house.

In all countries, however, men seem eventually to have been led by irresistible reasons to prefer *metals* for this purpose. Metals can be kept without loss; hardly anything is less perishable than they are; and they can without loss be divided into any number of parts, which can then easily be re-united again, this being the quality that most fits them to be the instruments of commerce and circulation. Someone

who wanted to buy salt and had nothing but cattle to give in exchange for it had to buy salt to the value of a whole ox at a time. . . . If on the other hand instead of •oxen he had •metals to give in exchange for the salt, he could easily proportion the quantity of the metal to the precise quantity of salt that he wanted.

Different metals have been used for this purpose. Iron was the common instrument of commerce among the ancient Spartans, copper among the ancient Romans, and gold and silver among all rich and commercial nations.

Those metals seem originally to have been used for this purpose in rude [see Glossary] bars, without any stamp or coinage. Ancient historians tell us that until the time of Servius Tullius the Romans had no coined money, but used unstamped bars of copper to purchase whatever they wanted. So these rude bars had at that time the function of money.

There were two considerable inconveniences in the use of metals in this rude state—the trouble of •weighing them, and of •assaying them. In the precious metals, where a small difference in the quantity makes a great difference in the value, **weighing** with proper exactness requires very accurate weights and scales. With the coarser metals, where a small error would matter less, precise accuracy would not be needed; but it would be excessively troublesome if every time a poor man wanted to buy or sell a farthing's worth of goods he had to weigh the farthing. The operation of **assaying** is still more difficult and tedious: you can't be sure about the purity of a portion of gold unless some of it is completely melted in a crucible with proper solvents. Before coined money was introduced, this tedious and difficult operation gave people their only protection against the grossest frauds and impositions in which gold or silver or copper might be replaced by an adulterated composition of coarse cheap material that looked the same. To prevent such abuses, to facilitate exchanges and thus encourage industry and commerce, every country that has made any considerable advance towards improvement has found it necessary to affix a public stamp on certain quantities of the particular metals that were commonly used to purchase goods in that country. Hence the origin of **coined money** and of the public offices called 'mints'; institutions just like with those of the inspectors and stamp-masters of woollen and linen cloth. All of them are equally meant to ascertain, by means of a public stamp, the quantity and uniform goodness of those commodities when brought to market.

The first such public stamps affixed to current metals were often intended to ascertain the thing it was hardest and most important to ascertain, namely the metal's goodness or fineness. They resembled the sterling mark that is now affixed to plate and bars of silver, or the Spanish mark sometimes affixed to ingots of gold; these marks, being struck on only one side of the piece and not covering the whole surface, ascertain the •fineness of the metal but not its •weight. [He gives two examples, one biblical and one historical.]

The difficulty of weighing those metals precisely gave rise to the institution of **coins**, of which the stamp—entirely covering both sides and sometimes the edges too—was intended to ascertain not only the metal's fineness but also its weight. Such coins were received by tale [= 'on the basis of *counting* them'], as at present, without the trouble of weighing.

[After a long and learned account of some of the currencies used in Europe through the centuries, their names, values, and constituent metals, Smith continues:]

In every country of the world, I believe, the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have gradually diminished the real quantity of metal contained in their coins. The Roman

assis was reduced in the later ages of the republic to $\frac{1}{24}$ of its original value; from weighing a pound, it came to weigh only half an ounce. From their original values,

- the English pound and penny now weigh about $\frac{1}{3}$,
- the Scots pound and penny about $\frac{1}{36}$, and
- the French pound and penny about $\frac{1}{66}$.

The princes and sovereign states that did this were able to *appear to* pay their debts and fulfil their engagements with less silver than would otherwise have been required. But it was only appearance; their creditors were really defrauded of a part of what was owed to them. All other debtors in the state were also allowed to pay with the same nominal sum of the new and debased coin whatever they had borrowed in the old. Such operations have always been favourable to the debtor and ruinous to the creditor. . . .

That is how *money* has become the universal instrument of commerce in all civilised nations, by the intervention of which goods are bought and sold or exchanged for one another.

My next topic is: the rules that men naturally follow in exchanging goods for money or goods for goods. These rules determine what may be called the 'relative' or 'exchangeable' value of goods.

The word 'value' has two meanings: the 'value of' x may be

- x's utility, its 'value in use' or
- the power of purchasing other goods that you get from owning x, its 'value in exchange'.

The things with greatest value in use often have little or no value in exchange; and those with the greatest value in exchange often have little or no value in use. Nothing is more useful than water, but there is almost nothing you can buy with it; whereas a diamond has hardly any value in use, but a large quantity of other goods may often be had in exchange for it.

To investigate the principles that regulate the exchangeable value of commodities I shall try to show **(1)** what is the real measure of this exchangeable value, i.e. what the real price of a commodity consists in; **(2)** what are the parts that this real price is composed of; and **(3)** what are the. . . .causes that sometimes prevent the market price of commodities from coinciding exactly with what may be called their 'natural price'.

I'll deal with those three subjects, as fully and clearly as I can, in the next three chapters, which I beg you to approach with patience and attention. You will need patience to examine details of which some may appear unnecessarily tedious; and you'll need to attend if you are to understand things that may appear somewhat obscure even after I have explained them as fully as I can. I'm always willing to risk being tedious in order to be sure that I am clear; and even after I have done my best to be clear, some obscurity may still appear to remain on a subject that is inherently extremely abstract.

Chapter 5. Commodities' real price (in labour) and their nominal price (in money)

Every man is rich or poor according to how much he can afford to enjoy the necessities, conveniences, and pastimes of human life. But once the division of labour has thoroughly taken place, a man can't supply himself with many of these through his own labour. Most of them must come to him from the labour of other people, and he must be rich or poor according to how much of that labour he can command or can afford to purchase. Thus, for someone who owns something and intends not to use or consume it himself but to exchange it for other commodities, its *value* is equal to the amount of labour it enables him to purchase or command.