

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

Adam Smith (1723-1790) was born in Kirkcaldy, on the east coast of Scotland. He was educated in the local grammar school and then at Glasgow University. In 1740 he won a scholarship and went to Baliol College, Oxford. In 1751 Adam Smith became a professor of Logic at Glasgow, and then, the following year, took the Chair of Moral Philosophy.

Smith, as a creative and imaginative thinker, was used to lecture on several subjects: natural theology, ethics, jurisprudence and economics among others. In 1759, he published his *Theory of Moral Sentiments*. In 1764 he resigned his professorship to become tutor to a young duke, with whom he travelled extensively in France. In this period Smith met some of the most prominent thinkers of that age as Voltaire, Rousseau and Franklin, and also started to write his masterpiece, *An Inquiry into the Nature and Causes of the Wealth of Nations*, that was published in 1776.

Appointed as commissioner of customs for Edinburgh, in 1778 Smith moved back to Scotland. In 1787 he was elected Rector of Glasgow University. After a few years he died in Edinburgh in 1790.

The following essay has been extracted from the fourth book of the *Wealth of Nations* (1786). In this part Smith strongly and widely discussed the two economic systems of Mercantilism and Physiocracy. Most of the book, however, does expose in an extensively manner the flaws of the Mercantilist system in order to support the establishing of a pure free-trade system.

The argument selected here is in line with the classics published in the foregoing issues of this journal *Crossroads*, *Of the Jealousy of Trade* by David Hume (1758), and *Customs Duties as a Chief Means of Establishing and Protecting the Internal Manufacturing Power* by Friedrich List (1885). Such contributions are intended to shed light also on the modern debate over the role of international trade, international trade policies, and international economic relations within the broader range of international affairs. In the next issue an essay by T.R. Malthus, *Observations on the Effects of the Corn Laws, and of a Rise or Fall in the Price of Corn on the Agriculture and General Wealth of the Country* (1815) will be re-published.

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Book IV
Of Systems of Political Economy
Chapter III
Part 2

Of the Unreasonableness of those extraordinary Restraints upon other Principles

In the foregoing part of this chapter I have endeavoured to show, even upon the principles of the commercial system, how unnecessary it is to lay extraordinary restraints upon the importation of goods from those countries with which the balance of trade is supposed to be disadvantageous.

Nothing, however, can be more absurd than this whole doctrine of the balance of trade, upon which, not only these restraints, but almost all the other regulations of commerce are founded. When two places trade with one another, this doctrine supposes that, if the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium. Both suppositions are false. A trade which is forced by means of bounties and monopolies may be and commonly is disadvantageous to the country in whose favour it is meant to be established, as I shall endeavour to show hereafter. But that trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous, though not always equally so, to both.[...]

[...] By such maxims as these, however, nations have been taught that their interest consisted in beggaring all their neighbours. Each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades, and to consider their gain as its own loss. Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity. The capricious ambition of kings and ministers has not, during the present and the preceding century, been more fatal to the repose of Europe than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolizing spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected may very easily be prevented from disturbing the tranquillity of anybody but themselves. That it was the spirit of monopoly which originally both invented and propagated this doctrine cannot be doubted; and they who first taught it were by no means such fools as they who believed it. In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people. As it is the interest of the freemen of a corporation to hinder the rest of the inhabitants

from employing any workmen but themselves, so it is the interest of the merchants and manufacturers of every country to secure to themselves the monopoly of the home market. Hence in Great Britain, and in most other European countries, the extraordinary duties upon almost all goods imported by alien merchants. Hence the high duties and prohibitions upon all those foreign manufactures which can come into competition with our own. Hence, too, the extraordinary restraints upon the importation of almost all sorts of goods from those countries with which the balance of trade is supposed to be disadvantageous; that is, from those against whom national animosity happens to be most violently inflamed.

The wealth of a neighbouring nation, however, though dangerous in war and politics, is certainly advantageous in trade. In a state of hostility it may enable our enemies to maintain fleets and armies superior to our own; but in a state of peace and commerce it must likewise enable them to exchange with us to a greater value, and to afford a better market, either for the immediate produce of our own industry, or for whatever is purchased with that produce. As a rich man is likely to be a better customer to the industrious people in his neighbourhood than a poor, so is likewise a rich nation. A rich man, indeed, who is himself a manufacturer, is a very dangerous neighbour to all those who deal in the same way. All the rest of the neighbourhood, however, by far the greatest number, profit by the good market which his expense affords them. They even profit by his underselling the poorer workmen who deal in the same way with him. The manufacturers of a rich nation, in the same manner, may no doubt be very dangerous rivals to those of their neighbours. This very

competition, however, is advantageous to the great body of the people, who profit greatly besides by the good market which the great expense of such a nation affords them in every other way. Private people who want to make a fortune never think of retiring to the remote and poor provinces of the country, but resort either to the capital, or to some of the great commercial towns. They know that where little wealth circulates there is little to be got, but that where a great deal is in motion, some share of it may fall to them. The same maxims which would in this manner direct the common sense of one, or ten, or twenty individuals, should regulate the judgment of one, or ten, or twenty millions, and should make a whole nation regard the riches of its neighbours as a probable cause and occasion for itself to acquire riches. A nation that would enrich itself by foreign trade is certainly most likely to do so when its neighbours are all rich, industrious, and commercial nations. A great nation surrounded on all sides by wandering savages and poor barbarians might, no doubt, acquire riches by the cultivation of its own lands, and by its own interior commerce, but not by foreign trade. It seems to have been in this manner that the ancient Egyptians and the modern Chinese acquired their great wealth. The ancient Egyptians, it is said, neglected foreign commerce, and the modern Chinese, it is known, hold it in the utmost contempt, and scarce deign to afford it the decent protection of the laws. The modern maxims of foreign commerce, by aiming at the impoverishment of all our neighbours, so far as they are capable of producing their intended effect, tend to render that very commerce insignificant and contemptible.

It is in consequence of these maxims that the commerce between France

and England has in both countries been subjected to so many discouragements and restraints. If those two countries, however, were to consider their real interest, without either mercantile jealousy or national animosity, the commerce of France might be more advantageous to Great Britain than that of any other country, and for the same reason that of Great Britain to France. France is the nearest neighbour to Great Britain. In the trade between the southern coast of England and the northern and north-western coasts of France, the returns might be expected, in the same manner as in the inland trade, four, five, or six times in the year. The capital, therefore, employed in this trade could in each of the two countries keep in motion four, five, or six times the quantity of industry, and afford employment and subsistence to four, five, or six times the number of people, which an equal capital could do in the greater part of the other branches of foreign trade. Between the parts of France and Great Britain most remote from one another, the returns might be expected, at least, once in the year, and even this trade would so far be at least equally advantageous as the greater part of the other branches of our foreign European trade [...].