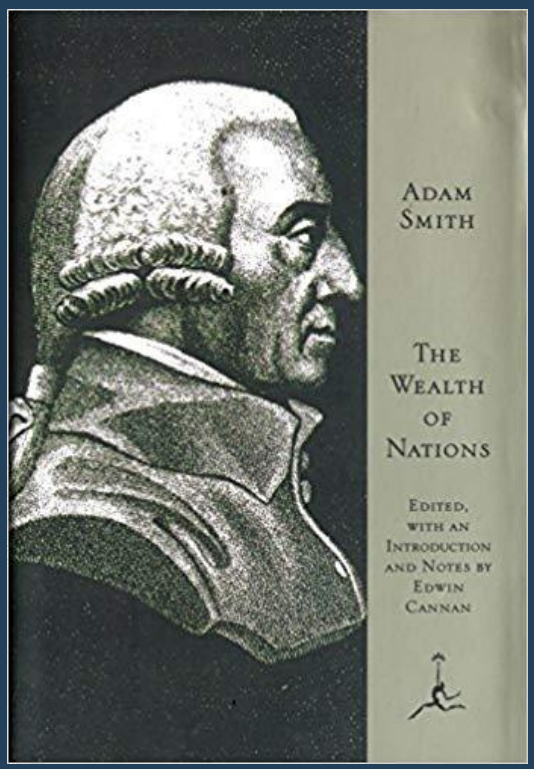

The Wealth of Nations

Year of publication: 1994
Author: Adam Smith
1200 pages
Link for purchase: https://amzn.to/2Xvy90v

The Wealth of Nations, released in 1776, was written by Adam Smith. Almost 250 years after its release, this classic book remains the basis for the world economy.
In addition to being the founder of economic science, this book has established a sequence of changes in economic policies. Free trade is just one example.
What is free trade? Well, Adam Smith will go through the whole book explaining just that. In this version (2006), the book is composed of 142 pages and 10 chapters.

Score

8

8 Aplicability
9 Inspiration
8 Innovation
7 Impact on results
8 Structure

Main ideias of the book

- People should be free to act in the economy;
- The government should not interfere in the economy. It should only provide legislation and specific public institutions;
- Law of supply and demand;
- Division of labor.

For whom is this book suitable?

Free trade allowed people from many parts of the globe to gather their talent and work to create products that centuries ago were unimaginable. Just pay attention to the number of people who own smartphones.
But is free trade as good as people say? After all, several companies changed their location, they went in search of cheaper labor and this caused many people to lose their jobs.
As you read this book, you will have much more knowledge about what is free trade and you can also decide for yourself what you think about the subject.

Overview of the book

"From the Division of Labor“

To illustrate the idea of how "division of labor" works, Smith gives the example of pin-making.
Normally, a beginner could make an acceptable pin per day, but when we have someone stretching a wire, another cutting, another pointing, in the end we will have thousands of pins per day.
According to Adam, dividing work into smaller parts makes productivity much greater than if only one person did the full work. This is how the advanced manufacturing system works.

"From the Principle that lead to the Division of Labor"

For Smith, it is critical that a nation have open trade with other countries. This is because any producer usually needs several other products for himself. For example, a pants manufacturer needs more than pants to survive.

> *Science is the great antidote to the poison of enthusiasm and superstition*

In other words, a particular manufacturer will produce more goods, so that he can exchange for other products you need.

"The Division of Labor is Limited by Market Extension"

Having the division of labor and the exchange of products and services will only exist one limitation, the author calls it "market extension." This "extension of the market" is simply having to whom to sell or exchange your products or services.
For example, a manufacturer of jackets trading in a seaside town. In this case, he must move to a cold-weather city where his "market reach" will be much greater.

"From the Origin and Use of Money"

The origin of money came from the need to exchange products. Of course, how could you acquire a desired product if there were no one to trade with? Let's return to the example of the seller of coats.
Suppose he wants to exchange his merchandise for potatoes, but the potato vendor does not want to buy coats.
That is why something is needed that allows the manufacturer of coats to sell their products to people who do not want coats. The money came to solve this exchange of products.
Adam points out that money is worthless. It is valuable only to the extent that you can buy "work."

"From the Real and Nominal Price of the Goods or the Price of them in Labor, and the Price of them in Money"

The price of each product is defined by the amount of labor necessary to produce it. This value does not fluctuate, it is fixed, since you always need the same amount of labor to create the product. This is Adam Smith's definition of "real price."
Now "nominal price", on the other hand, is variable. It is linked to how much we are willing to pay for certain merchandise. As an example we can observe the case of the CDs that currently worth less compared to years ago.

"From the Parts of the Price of Commodities"

In the earliest societies, the worker retained all the profit from his work. However, some workers started storing extra products.
These extra goods were used to pay other workers, giving rise to what we now call bosses.
Thus, the profit was no longer maintained by the worker, part of it was directed to the boss. This is because the worker should pay for land use of the owner.
So Adam says that the price of each product is composed of three things: the work required to manufacture it, the profit that the manufacturer wants to have and the rent paid.
Since rent and labor usually make up the bulk of the price of the product.

"From the Natural Price and the Market Price of the Goods"

Everywhere, be it country, state or city, there is a tendency of an average value for a certain type of work. This value is defined by Adam as "natural price." What determines this value is nothing more than the law of supply and demand.
If supply is high and demand is low, prices are reduced. If supply is low and demand is high, prices are increased. There is still the possibility of the manufacturer having a market monopoly, so that he can control the supply of his merchandise.
Now, "market price" is the effective price at which a product is sold, that value determined by supply and demand. According to Smith, the trend is the "market price" vary around the "natural price".

> *People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices*

"From the Labor Wages"

According to the author there must be a minimum limit value that a worker must receive for his services. This value must be sufficient to keep the worker alive.
If the value is lower than this, he would stop working, obviously, because he would know that there is no possibility of continuing to live and there would be no way to raise his family.
Adam Smith makes an economic analysis of slavery. He says that having a salaried employee is more profitable than having a slave.
In addition to not having the motivation to work, a sick slave presents costs to his employer, unlike the salaried employee who pays his own expenses.
Adam further argues that workers should have weekends off so they can rest and work better.

"From Wages and Profit in Various Manpower and Capital Jobs"

Why are some jobs paid more than others? Well, Adam Smith gives you five reasons for that.
The first is that some jobs are dirty and gross, so the pay for that work is increased.
There are also easy and difficult jobs. The harder it is to execute, the higher the skill required, the higher the pay.
The third is temporary employment. The pay for this job is higher because the person must also be paid for the time they will be looking for another job.
Another reason is responsibility. According to Adam, "We entrust our health to the physician [...]. Such confidence could certainly not be deposited in people of a very low condition or means. " Therefore, this responsibility increases the remuneration.
The fifth reason is the probability of success or failure in that job. The author says that "the probability that a given person qualifies one day for the occupation for which she is educated, is very different in different occupations."
On the other hand, Adam mentions, further, that government restrictions and taxes on imported goods shield domestic manufacturers from outside competition. In this way, prices and profits are kept high, but everyone is harmed.
There are also government policies that veto individuals moving to other places to work.
According to Adam, just as companies move to better workers and lower costs, workers will also need to move wherever they want.

Wherever there is great property, there is great inequality

Okay, but how can I apply this in my life?

At the end of the book, Adam Smith, makes it clear that some things cannot work properly in free trade, that is, they should be owned by the government. Examples would be schools, police and hospitals.
Well, now that you are better informed about what free trade is, you can already form your opinion on the subject. Of course, if you think you should go into the subject to know more, just get the complete work of Adam Smith.

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