

# ADAM SMITH

*The most influential political economist ever!*

## Biography

*Adam Smith is a biographer's nightmare!*

*He was a poor correspondent, he kept most of his writings only to then burn them on his deathbed, he led a quiet and secluded life*

Born 1723 in Scotland

Died 1790 in Scotland



## Philosophy (major ideas)

Adam Smith was among the first philosophers of his time to declare that wealth is created through productive labor, and that self-interest motivates people to put their resources to the best use. He argued that profits flowed from capital investments, and that capital gets directed to where the most profit can be made.

**Pro-progressive taxation** – did not feel wealth of the rich was of any benefit to society.  
**Emphasized fairness**

**Free trade between countries is good**

His assumption was that humans were self-serving by nature but that as long as every individual were to seek the fulfillment of her/his own self-interest, the material needs of the whole society would be met.

What were Adam Smith's **basic ideas?**  
**self-interest, competition, supply and demand**

The value ascribed to something is reflective of its usefulness to mankind

Preferred economic transactions when both sides can “win” (previously, a 1-side winner was prevalent)

Paradox – in his time, diamonds were worth more than water. Why?  
(unanswered)  
Suggests: because of their rarity, and effort to mine and cut them (labor theory)

# Sympathy (not empathy) is a major factor in creating and maintaining a social order

Meritocracy –a system of government based on ability/merit/talent rather than by wealth/nepotism (family connections)/class privilege/cronyism/popularity/social position/political power

Individuals pursuing his own good tends also to promote the good of is community

“Invisible Hand” concept – ensures that activities most beneficial and efficient will naturally be those that are most profitable

↳ usually generalized in foreign trade

The want of beneficence may disappoint but “the violation of justice is injury.”

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In a market free from monopolies and self-serving public policies, competition among the self-interests of isolated consumers and producers produces a stable and expanding economy

The self-interested pursuit of wealth may not be individually satisfying but leads to an aggregate increase in wealth that is in the best interests of a nation.

Smith examines the value of beneficence and justice

↳ While he agrees that friendship, generosity and charity enhance our lives, it is justice that is essential for the creation and maintenance of a viable society