

Founder of Modern Economics: Adam Smith (1732 – 1790)

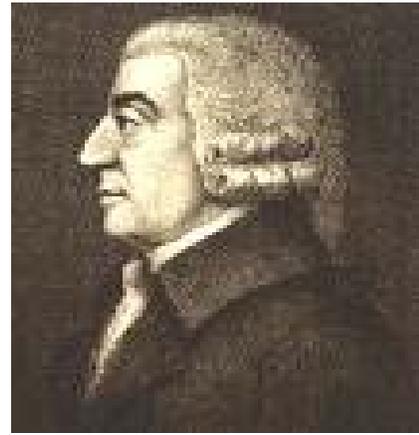
In 1776, the Declaration of Independence was drafted by the Second Continental Congress in Philadelphia. In that same year, *An Inquiry into the Nature and Causes of the Wealth of Nations* was published in Great Britain. Its author was Adam Smith. Like the Declaration of Independence, Smith's work emphasized freedom, but it was economic freedom.

Smith was the first major supporter of free, or unrestricted, activity in the marketplace. He believed that people's self-interest would lead them to do what was best not only for themselves, but for the economy and society as a whole. This idea underlies Smith's theory of the **invisible hand**, which symbolizes economic competition.

According to Smith, when all individuals are allowed to do as they wish to improve their standard of living, the economy is guided as if by an invisible hand to maximize the welfare of all of society. There is no need for government to intervene to make things work smoothly. Smith, however, recognized that government should do certain things for its citizens, such as provide for national defense. But it should not control economic activity in any way. Another term used to describe Smith's theory is **laissez faire** (les-ay FAIR). This is a French term meaning "do not interfere."

Smith also wrote about industrialization and the production process, especially the division of labor. He was one of the first to understand the advantages of having individuals do only certain tasks in a job rather than the complete job. If individuals concentrate only on specific productive activities, they can pool their talents to produce more and thereby consume more.

Most economists consider Adam Smith the founder of modern economics for these theories and for his writings on free trade. He believed that even in trade between nations, governments should not intervene. This was in direct conflict with the British policy at the time, **mercantilism**. Mercantilism is an economic theory that colonies exist only to make the ruling country richer. Colonies supply raw materials to the ruling country and buy finished goods only from that country. This policy was one of the causes of the American Revolution.



Smith's ideas have taken on increasing importance over time. An interest in returning to a more free-market economy was evident in the United States by the late 1970s. With the election in 1980 of Ronald Reagan, who supported less government, Smith's theories gained greater visibility and popularity. A growing number of American economists, citizens, and politicians took up his call for laissez-faire capitalism. Smith's ideas also stand in sharp contrast to what happened in a number of countries in this century. Most countries have moved toward greater – in some cases almost total – government control of economic activity.

1. What is the title of Smith's book?
2. What was the main theme of his work?
3. Explain the main idea's behind his "invisible hand" theory?
 - a.
 - b.
 - c.
 - d.

4. The role of government, according to Smith was?
5. Define “laissez-faire”:
6. Who is supposed to leave what alone?
7. Why did Smith believe in division of labor?
8. Define mercantilism:
9. Why do think that many countries this century have moved towards greater control of the economy?
10. Why do economists consider Adam Smith the founder of modern economics?