Adam Smith Essay, Research Paper

The new United States emerged from the Revolution sovereign but in a state

of fiscal chaos. The Continental Congress had been forced to resort to printing fiat

money, the so-called continentals that sank quickly into worthlessness. The various

states had borrowed heavily to meet the demands of the war.

The central government under the Articles of Confederation was financed

solely by contributions from the various state governments (just as the United

Nations is funded today) and had no power to tax or borrow on its own authority.

Because the state governments had pressing needs of their own (as governments

always do), their contributions were often late and sometimes nonexistent

(Cummings). As a result, the central government had grave difficulties meeting

even its current obligations.

It was this financial crisis that helped force the drafting of the new

Constitution in 1787. The document that the Founding Fathers created that

summer in Philadelphia–the desperate poverty of the old government all too fresh

in their minds–put remarkably few restrictions on the new government’s power to

spend, tax, and borrow (McCarty).

The federal government is required to maintain such things as the post office

and the census, which necessarily require spending, and Congress may not make

military appropriations extending more than two years. But it is empowered to

appropriate money for the “general welfare,” a term left undefined. In the twentieth

century it has come to be construed so broadly as to encompass a museum

dedicated to the memory of Lawrence Welk(Cummings).

Taxes merely had to be uniform throughout the United States and could not

be laid on the exports of any state. The power to borrow, meanwhile, was entirely

unlimited, one of the very few powers granted by the Constitution that had no

checks or balances.

What did limit the fiscal powers of the new government was the universal

consensus, among ordinary citizens and the political elite as well, about the proper

and prudent way for a government to act when it came to taxing, spending, and

borrowing. This consensus was best summed up, as you might expect, by Adam

Smith in THE WEALTH OF NATIONS. “What is prudence in the conduct of

every private family,” he writes, “can scarce be folly in that of a great kingdom.” In

other words, governments should finance current expenditures out of current

income, save for a rainy day (or, more properly, allow the people to do so by

lowering taxes when the budget is in surplus), borrow only when inescapably

necessary, and pay back borrowed money as quickly as possible.

Alexander Hamilton, appointed by President Washington to be the first

Secretary of the Treasury, moved swiftly to put the new government’s fiscal house

in order (McCarty). Taxes were laid. Mostly excise taxes on products like whiskey

and duties on imports, these were intended both to fund the new government and

provide a revenue stream to service and reduce the new national debt. This debt in

turn funded the redemption of the old Revolutionary War debt on a sound basis.

At the beginning the national debt amounted to $80 million, something on

the order of 40 percent of the gross national product of the day. But as the

government found its fiscal feet after 1795, it ran a deficit only twice until the War

of 1812 (McCarty). As the country’s economy rapidly expanded, the debt declined

in both relative and absolute terms. By 1811 the total debt was only a little more

than half what it had been in 1795.

The war, of course, sharply reversed matters. Federal government outlays in

1811 were a little more than $8 million. By 1814 they were more than $34 million.

Meanwhile revenues suffered as the ever-tightening British blockade cut sharply

into import duties, the main source of government income at the time. In 1814

outlays exceeded revenues by 211 percent.

Hamilton had intended that the Bank of the United States, which he

established, should finance deficits incurred by the government, but its charter had

expired in 1811, the victim of politics (McCarty). The government now found

itself hard pressed to raise loans to finance the war, because the country’s financial

markets

were still in their infancy and unable to handle the large sums required.

The country’s affluent were approached directly, and many responded. John

Jacob Astor, already America’s richest citizen, subscribed to $2 million worth of

government paper. (He drove a very hard bargain, buying the bonds only at a steep

discount from their face value. The government, of course, had little choice but to

go along with the demands of someone who could easily single-handedly fund 2

percent of the entire national debt.)

The publication in 1776 of his book ‘An Inquiry into the Nature and Causes

of the Wealth of Nations’ established Adam Smith as the single most influential

figure in the development of modern economic theory. With exceptional clarity he

described the workings of a market economy, the division of labor in production,

the nature of wealth in relation to money, the inability of governments to manage

economies, and the difference between productive and nonproductive labor.

Smith was probably born early in 1723 in Kirkcaldy, Scotland, since his baptismal

date was June 5 of that year. In 1737 he entered the University of Glasgow and

became a student of moral philosophy. Three years later he transferred to Balliol

College, Oxford, and remained there until 1746. In 1748 he began delivering a

series of public lectures in Edinburgh on wealth and its increase, or as he described

it, “the progress of opulence.”

In 1751 Smith was appointed professor of logic at Glasgow, and the next

year he became professor of moral philosophy. His subject matter included ethics,

law, rhetoric, and political economy (now called economics). His first book, ‘The

Theory of Moral Sentiments’, was published in 1759. After this book he began to

turn his attention toward law and economics. This is evident from student notes

taken at his lectures about 1763.

The silhouette proudly displayed on Joint Economic Committee (JEC)

material is that of Adam Smith (1723-90), the Eighteenth Century economist who

founded the classical economic school of thought (McLean). Smith laid the

intellectual framework that explained the free market and still holds true today as

we approach the 21st Century. Adam Smith is most often recognized for the

expression the invisible hand,’ which he used to demonstrate how self-interest

guides the most efficient use of resources in a nation’s economy, with public

welfare coming as a by-product. To underscore his laissez-faire convictions, Smith

argued that state and personal efforts, to promote social good are ineffectual

compared to unbridled market forces.

Born in Kirkcaldy, Scotland in 1723, Smith had a relatively normal

childhood, with the exception of being taken by gypsies and returned with some

difficulty at the age of three. As a young man, he went on to attend Oxford

University and became a professor of moral philosophy at Glasgow University.

Unlike many great thinkers, he gained wide recognition during his lifetime for a full

gamut of lectures and, most importantly, the publication of two major works:

Theory of Moral Sentiments (1759) and (the JEC’s favorite) The Nature and

Causes of the Wealth of Nations (1776). In The Wealth of Nations, Smith argued

against the mercantilist ideology of the day, suggesting that trade protectionism,

high tariffs, and high taxes designed to lower trade deficits inhibited economic

progress.

Smith believed that the “wealth” of a nation was made up of the productive

energies of its people. Two hundred years after his death, Adam Smith’s principles

of free markets, low taxes, respect for private property, and stable money serve as

a linchpin for JEC initiatives in the 104th Congress.

Adam Smith was born in Kirkcaldy, Fife, Scotland. The exact date of his

birth is unknown, however, he was baptized on June 5, 1723. Smith was the

Scottish political economist and philosopher, who became famous for his

influential book “The Wealth of Nations” written in 1776.

In 1751 Smith was appointed professor of logic at Glasgow university,

transferring in 1752 to the chair of moral philosophy. His lectures covered the field

of ethics, rhetoric, jurisprudence and political economy, or “police and revenue.”

In 1759 he published his Theory of Moral Sentiments, embodying some of his

Glasgow lectures. This work was about those standards of ethical conduct that

hold society together, with emphasis on the general harmony of human motives

and activities under a beneficent Providence.

Smith moved to London in 1776, where he published “An Inquiry into the

Nature and Causes of the Wealth of Nations,” which examined in detail the

consequences of economic freedom. It covered such concepts as the role of

self-interest, the division of labor, the function of markets, and the international

implications of a laissez-faire economy. “Wealth of Nations” established economics

as an autonomous subject and, launched the economic doctrine of free enterprise.

In 1778 he was appointed to a post of commissioner of customs in

Edinburgh, Scotland. He died there on July 17, 1790, after an illness. At the end it

was discovered that Smith had devoted a considerable part of his income to

numerous secret acts of charity.

In the 1760s he traveled in France, met some of the Physiocrats, and

started to write his masterpiece, An Inquiry into the Nature and Causes of the

Wealth of Nations, published in 1776. Smith postulated the theory of the division

of labor and emphasized that value arises from the labor used in production. He

believed that in a laissez faire economy the impulse of self-interest would bring

about the public welfare. Although opposed to monopoly and the concepts of

mercantilism, he admitted that restrictions on free trade (such as the Navigation

Acts) were sometimes necessary. Although some of Smith’s theories were voided

by the experience of the Industrial Revolution, his influence on later economists

has never been surpassed (Kates).

He left Glasgow to become tutor to the duke of Buccleuch, with whom he

traveled for two years on the Continent .There he met some of the more prominent

theorists in politics and economics, including Jacques Turgot, Jean le Rond

d’Alembert, and Francois Quesnay. Smith then returned home to England and

spent most of the next ten years writing his book ‘The Wealth of Nations’. In 1778,

two years after its publication, he was appointed commissioner of customs and

went to live in Edinburgh. He remained there until his death on July 17, 1790

(Kates).

Works Cited

Cummings, Jeanne. ?Wealth of a Nation,? SIRS. 28 November 1993:A-27

Kates, Don and Napper, George. ?Adam Smith? U.S. News

and World Report. 5 May 1989: Volume 4, A-29

McCarty, Pat. ?Wealth of Nations,? World Wide Web.

http://rampages.onramp.net/~johna/times.html

McLean, Jim. ?Joint Economic Committee.? Capital Journal. 20 February 1997

Adam Smith

Ronald Bunyi

Economics Honors

March 20, 1998

Period: 5th

President of the United States of America

Ty Thompson

31c